



**! Kheis**  
Munisipaliteit  
Municipality

Financial statements  
for the year ended 30 June 2017

## **!Kheis Local Municipality**

Annual Financial Statements for the year ending 30 June 2017

### **GENERAL INFORMATION**

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<b>Legal form of entity</b>	Local Municipality
<b>Nature of business and principal activities</b>	Providing municipal services
<b>Members of Council</b>	
Mayor	Cllr AL Diergaardt
Councillors	Cllr S Esau Cllr K Esau Cllr E Cloete Cllr G Beukes Cllr J Silo Cllr A Tobias
<b>Capacity of local authority</b>	Low capacity municipality
<b>Accounting Officer</b>	J Willemse Acting Municipal Manager
<b>Chief Financial Officer (CFO)</b>	WB Weilbach Acting Chief Financial Officer
<b>Registered Office</b>	97 Orange Street Groblershoop 8850
<b>Business address</b>	97 Orange Street Groblershoop 8850
<b>Postal address</b>	PO Box 178 Groblershoop 8850
<b>Bankers</b>	First National Bank Groblershoop 8850
<b>Telephone number:</b>	054 833 9500
<b>Fax number:</b>	054 833 9509
<b>E-mail address:</b>	<a href="mailto:mm1@kheism.gov.za">mm1@kheism.gov.za</a>
<b>Auditors</b>	Auditor - General Kimberley
<b>Attorneys</b>	Cornellison Incorporated

## **!Kheis Local Municipality**

Annual Financial Statements for the year ending 30 June 2017

### **General information (continued)**

#### **Enabling Legislation**

Local Government: 'Municipal Finance Management Act (Act no 56 of 2003)  
Local Government: Municipal Systems Act (Act no 32 of 2000)  
Local Government: Municipal Structures Act (Act no 117 of 1998)  
Municipal Property Rates Act (Act no 6 of 2004)  
Division of Revenue Act (Act 6 of 2011)  
  
Municipal Planning and Performance Management  
Regulations Water Service Act (Act 108 of 1997)  
Housing Act (Act no 107 of 1997)  
Basic Conditions of Employment Act (Act no 75 of 1997)  
Supply Chain Management Regulations, 2005  
Skills Development Levies Act (Act 9 of 1999)  
Unemployment Insurance Act (Act no 30 of 1966)  
Employment Equity Act (Act 55 of 1998)  
Electricity Act (Act no 41 of 1987)  
The Income Tax Act  
Value Added Tax Act  
Collective Agreements  
Infrastructure Grants  
SALBC Leave Regulations

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature.

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#### **Abbreviations**

COID	Compensation of Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Standard of Generally Accepted Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standard
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (previously CMIP)
MSIG	Municipal Systems Improvement Grant
DWA	Department of Water Affairs
FMG	Financial Management Grant

## **!Kheis Local Municipality**

Annual Financial Statements for the year ending 30 June 2017

### **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

It is acknowledged that the accounting officer is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, standards are set for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

In my opinion as accounting officer and based on the information and explanations given by management, the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

I reviewed the municipality's cash flow forecast for the year to 30 June 2018 and its financial position as at 30 June 2017, and, in my opinion, the municipality is sound enough financially to be able to continue its service obligations to its community.

The accounting officer is responsible for the preparation of these financial statements, which are set out on pages 1 to 87 in terms of section 126 (1) of the Municipal finance Management Act and which I have signed on behalf of the municipality.

I certify that salaries, allowances and benefits of Councillors as disclosed in note 25 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the constitution, read with the remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act. However during the calculation there-off an administrative error has resulted in over payment off R270 998.84 at year-end. Council are currently in process to recoupe this over payment disclosed as a debtor at year-end.

The annual financial statements set out on pages 1 - 84 which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2017 and were signed on its behalf by:

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Accounting Officer  
J Willemsse - Acting Municipal Manager

## **!Kheis Local Municipality**

Annual Financial Statements for the year ending 30 June 2017

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### **Accounting Officer's Report**

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The accounting officer submits his report for the year ended 30 June 2017

#### **1. Review of activities**

##### **Main business and operations**

The municipality is engaged in providing municipal services and operates principally in the Northern Cape Province in South Africa.

The operating results and the state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comments.

#### **2. Going concern**

We draw attention to the fact that at 30 June 2017, the municipality had accumulated surplus of R 146 375 938 and that the municipality's total assets exceed its liabilities by R 146 375 938.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of this is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

Due to lack of sufficient cashflow during the year the Municipality did struggle to continue to deliver on its promises as contain in their budget and IDP. With the communities current unemployment rate of nearly 70% this was however expected.

#### **3. Accounting policies**

The annual financial statements are prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

#### **4. Accounting Officer**

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name  
J Willemse

Nationality  
RSA Citizen

# !Kheis Local Municipality

Annual Financial Statements for the year ending 30 June 2017

## Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016
<b>Assets</b>			
<b>Current assets</b>			
Other financial assets	5	97 972	691 119
Inventories	6	328 607	106 512
Other receivables from non-exchange transactions	7	5 153 039	4 356 656
VAT receivable	8	52 050	169 318
Trade and other receivables from exchange transactions	9	10 173 595	8 327 073
Cash and cash equivalents	10	309 387	415 655
		<b>16 114 650</b>	<b>14 066 332</b>
<b>Non-current assets</b>			
Property, plant and equipment	4	161 351 675	156 134 961
		<b>161 351 675</b>	<b>156 134 961</b>
<b>Total assets</b>		<b>177 466 326</b>	<b>170 201 293</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Unspent conditional grants and receipts	12	544 003	250 594
Provisions	13	3 803 824	3 538 441
Employee benefit obligations	14	346 192	197 365
Payables from exchange transactions	15	18 993 162	13 456 642
VAT payable	9	3 176 273	2 760 177
Current portion of non-current liabilities	16	846 634	1 532 460
Consumer deposits	17	89 931	78 432
		<b>27 800 020</b>	<b>21 814 111</b>
<b>Non-current liabilities</b>			
Finance lease obligation	11	3 290 367	1 381 533
		<b>3 290 367</b>	<b>1 381 533</b>
<b>Total liabilities</b>		<b>31 090 387</b>	<b>23 195 643</b>
<b>Net assets</b>		<b>146 375 938</b>	<b>147 005 650</b>
Accumulated surplus / (deficit)		146 375 938	147 005 650
<b>Total net assets</b>		<b>146 375 938</b>	<b>147 005 650</b>



## IKheis Local Municipality

Annual Financial Statements for the year ending 30 June 2017

### Statement of Changes in Net Assets

Figures in Rand	Accumulated Surplus	Total net assets
<b>Balance at 01 July 2014</b>	<b>138 873 147</b>	<b>138 873 147</b>
Changes in nett assets	-	-
Prior Adjustment	-	-
Surplus for the year	3 340 528	3 340 528
<b>Total changes</b>	<b>3 340 528</b>	<b>3 340 528</b>
<b>Balance at 30 June 2015</b>	<b>142 213 675</b>	<b>142 213 675</b>
Changes in nett assets	-	-
Prior Adjustment	(3 111 056)	(3 111 056)
Surplus for the year	7 903 031	7 903 031
<b>Total changes</b>	<b>4 791 975</b>	<b>4 791 975</b>
<b>Balance at 30 June 2016</b>	<b>147 005 650</b>	<b>147 005 650</b>
Changes in nett assets	-	-
Prior Adjustment	115 722	115 722
Surplus for the year	(745 434)	(745 434)
<b>Total changes</b>	<b>(629 712)</b>	<b>(629 712)</b>
<b>Balance at 30 June 2017</b>	<b>146 375 938</b>	<b>146 375 938</b>

**!Kheis Local Municipality**

Annual Financial Statements for the year ending 30 June 2017

**Statement of Financial Performance**

Figures in Rand	Note (s)	2017	2016
<b>Revenue</b>			
Sale of goods		674 414	-
Rental of facilities and equipment		1 268 594	599 396
Property rates	19	5 232 833	3 876 125
Service charges	20	9 023 100	9 089 139
Government grants & subsidies	21	33 947 249	38 724 031
Licenses and permits		257 953	314 560
Recoveries		-	880 866
Other income	22	239 800	273 825
Interest received - investment	27	270 807	241 230
<b>Total revenue</b>	<b>18</b>	<b>50 914 749</b>	<b>53 999 173</b>
<b>Expenditure</b>			
Personnel	24	(25 631 518)	(17 562 054)
Remuneration of councillors	25	(2 373 500)	(2 347 422)
Debt impairment	26	(4 629 721)	(5 534 854)
Depreciation and amortisation	28	(8 592 447)	(7 633 554)
Finance costs	29	(54 490)	(966 994)
Grants and Subsidies Paid - Operational (UDS Toilets)	31	(1 441 094)	(2 294 877)
Repairs and maintenance		(943 479)	(1 215 803)
Bulk purchases	32	(901 171)	(888 575)
General expenses	23	(9 131 072)	(7 654 428)
<b>Total expenditure</b>		<b>(53 698 491)</b>	<b>(46 098 561)</b>
<b>Operating (deficit) surplus</b>		<b>(2 783 741)</b>	<b>7 900 612</b>
Gain on non-current assets held for sale or disposal groups		2 038 307	2 419
<b>(Deficit) surplus for the year</b>		<b>(745 434)</b>	<b>7 903 031</b>

**!Kheis Local Municipality**

Annual Financial Statements for the year ending 30 June 2017

**Cash Flow Statement**

Figures in Rand	Note (s)	2017	2016
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Taxation / Sale of goods and services		6 567 474	3 635 734
Grants		33 947 249	-
Interest income from investing activities		270 807	38 724 031
Interest received from trading activities			241 230
		<u>40 785 530</u>	<u>42 600 996</u>
<b>Payments</b>			
Employee costs		(28 005 018)	(19 909 476)
Suppliers		(5 232 833)	(5 232 508)
Finance costs		(54 490)	(502 546)
Other payments			-
		<u>(33 292 341)</u>	<u>(25 644 531)</u>
<b>Net cash flows from operating activities</b>	33	<u><b>7 493 189</b></u>	<u><b>16 956 465</b></u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(8 348 915)	(16 103 478)
Proceeds from sale of property, plant and equipment	4	(1 159 376)	-
Purchase from other intangible assets	5	-	-
		<u>(9 508 291)</u>	<u>(16 103 478)</u>
<b>Net cash flows from investing activities</b>		<u><b>(9 508 291)</b></u>	<u><b>(16 103 478)</b></u>
<b>Cash flows from financing activities</b>			
Finance lease written off/New finance leases			-
Transfer to payables from exchange transactions			
Finance lease payments		1 908 835	(872 710)
		<u>1 908 835</u>	<u>(872 710)</u>
<b>Net cash flows from financing activities</b>		<u><b>1 908 835</b></u>	<u><b>(872 710)</b></u>
<b>Net increase / (decrease) in net cash and cash equivalents</b>		<u><b>(106 268)</b></u>	<u><b>(19 723)</b></u>
Cash and cash equivalents at beginning of year		415 655	435 378
<b>Cash and cash equivalents at end of the year</b>	11	<u><b>309 387</b></u>	<u><b>415 655</b></u>

# !Kheis Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue by source</b>						
Property rates	4 059 441	50 000	<b>4 109 441</b>	5 232 833	<b>1 123 393</b>	Implementation of revenue enhancement programme
Service charges	9 312 886	-247	<b>9 312 639</b>	9 023 100	<b>-289 540</b>	To be investigate
Investment revenue	69 045	176 000	<b>245 045</b>	270 807	<b>25 761</b>	Improved spending on grants resulted in lower interest income
Transfers recognised - operational	24 325 000	1 500 000	<b>25 825 000</b>	19 084 797	<b>-6 740 203</b>	Dwaf grant gazette did not payout
Other own revenue	6 293 093	-2 473 566	<b>3 819 527</b>	2 440 762	<b>-1 378 766</b>	Interest on receivables only implemented - 1 July 2017
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>44 059 466</b>	<b>-747 813</b>	<b>43 311 653</b>	<b>36 052 299</b>	<b>-7 259 354</b>	
<b>Expenditure by type</b>						
Employee costs	-21 502 570	-3 345 540	<b>-24 848 110</b>	-25 631 518	<b>-783 408</b>	Budget incorrect - not budgeted for the 32 strikers
Remuneration of councillors	-2 533 037	-	<b>-2 533 037</b>	-2 373 500	<b>159 537</b>	Budget incorrect - 25% car allowance additional budgeted for
Debt impairment	-5 534 854	-	<b>-5 534 854</b>	-4 629 721	<b>905 133</b>	Council embarked on a process of debtors cleansing, hence the large impairment
Depreciation and asset impairment	-11 553 079	3 441 000	<b>-8 112 079</b>	-8 592 447	<b>-480 369</b>	Incorrect budget - not including new additions
Finance charges	-414 000	-	<b>-414 000</b>	-54 490	<b>359 510</b>	New Nashua Leases
Materials and bulk purchases	-3 289 794	875 000	<b>-2 414 794</b>	-901 171	<b>1 513 623</b>	Budget incorrect - Cost of free basic services now disclosed as income for gone
Transfers and grants	-2 547 186	-748 000	<b>-3 295 186</b>	-1 441 094	<b>1 854 092</b>	Due to difference in allocation UDS toilets disclosed as operating expenditure and not capital
Other expenditure	-16 414 021	1 635 860	<b>-14 778 161</b>	-10 074 551	<b>4 703 610</b>	Budget figure includes debt impairment
<b>Total expenditure</b>	<b>-63 788 540</b>	<b>1 858 320</b>	<b>-61 930 220</b>	<b>-53 698 491</b>	<b>8 231 729</b>	
<b>Surplus/(Deficit)</b>	<b>-19 729 074</b>	<b>1 110 507</b>	<b>-18 618 567</b>	<b>-17 646 192</b>	<b>972 375</b>	

# !Kheis Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Transfers recognised - capital	15 269 880	-	15 269 880	14 862 452	-407 428	Dwaf grant gazette did not payout
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>-4 459 194</b>	<b>1 110 507</b>	<b>-3 348 687</b>	<b>-2 783 740</b>	<b>564 947</b>	
<b>Surplus/(Deficit) for the year</b>	<b>-4 459 194</b>	<b>1 110 507</b>	<b>-3 348 687</b>	<b>-2 783 740</b>	<b>564 947</b>	
<b>Reconciliation</b>						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Cash	685 654	-	685 654	407 359	-278 295	
Consumer debtors	48 241 561	-	48 241 561	15 326 635	-32 914 927	Impairment and VAT disclosure
Other debtors	-	-	-	52 050	52 050	Property rates disclosed as non-exchange transactions
Current portion of long-term receivables	-	-	-	-	-	
Inventory	-	-	-	328 607	328 607	Stock take at year end previously expensed
	<b>48 927 216</b>	<b>-</b>	<b>48 927 216</b>	<b>16 114 650</b>	<b>-32 812 565</b>	
<b>Non-Current Assets</b>						
Property, Plant and Equipment	162 115 220	-	162 115 220	161 351 675	-763 545	Prior year adjustments updated FAR
Intangible	-	-	-	-	-	
	<b>162 115 220</b>	<b>-</b>	<b>162 115 220</b>	<b>161 351 675</b>	<b>-763 545</b>	
<b>Total Assets</b>	<b>211 042 436</b>	<b>-</b>	<b>211 042 436</b>	<b>177 466 326</b>	<b>-33 576 110</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Bank overdraft	-	-	-	-	-	
Borrowing	-	-	-	-	-	Short term portion of borrowings
Consumer deposits	-	-	-	89 931	89 931	Incorrect budget
Trade and other payables	7 263 343	-	7 263 343	18 993 162	11 729 819	VAT payable on payment basis now disclosed
Provisions	-	-	-	3 803 824	3 803 824	
Other current liabilities				4 566 910	4 566 910	Short term portion of borrowings - Nashua leases
	<b>7 263 343</b>	<b>-</b>	<b>7 263 343</b>	<b>27 453 828</b>	<b>20 190 485</b>	

# !Kheis Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Non-Current Liabilities</b>						
Borrowing	-	-	-	3 290 367	<b>3 290 367</b>	Nashua leases
	-	-	-	<b>3 290 367</b>	<b>3 290 367</b>	
<b>Total Liabilities</b>	<b>7 263 343</b>	-	<b>7 263 343</b>	<b>30 744 195</b>	<b>23 480 852</b>	
<b>Nett Assets</b>	<b>203 779 093</b>	-	<b>203 779 093</b>	<b>146 722 131</b>	<b>-57 056 962</b>	
<b>Community wealth/equity</b>						
Accumulated Surplus/(deficit)	203 779 093	-93	203 779 000	146 375 938	<b>-57 403 062</b>	Prior year adjustments updated FAR
<b>Total community wealth/equity</b>	<b>203 779 093</b>	<b>-93</b>	<b>203 779 000</b>	<b>146 375 938</b>	<b>-57 403 062</b>	

# !Kheis Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2016</b>											
<b>Financial Performance</b>											
Property rates	4 059 441	50 000	4 109 441	-		4 109 441	5 232 833		-1 123 393	127%	129%
Service charges	9 312 886	-247	9 312 639	-		9 312 639	9 023 100		289 540	97%	97%
Investment revenue	69 045	176 000	245 045	-		245 045	270 807		-25 761	111%	392%
Transfers recognised - operational	24 325 000	1 500 000	25 825 000	-		25 825 000	19 084 797		6 740 203	74%	78%
Other own revenue	6 293 093	-2 473 566	3 819 527	-		3 819 527	2 440 762		1 378 766	64%	39%
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>44 059 466</b>	<b>-747 813</b>	<b>43 311 653</b>	<b>-</b>		<b>43 311 653</b>	<b>36 052 299</b>		<b>7 259 354</b>	<b>83%</b>	<b>82%</b>
Employee costs	-21 502 570	-3 345 540	-24 848 110	-	-	-24 848 110	-25 631 518	-	783 408	103%	119%
Remuneration of councillors	-2 533 037	-	-2 533 037	-	-	-2 533 037	-2 373 500	-	-159 537	94%	94%
Debt impairment	-5 534 854	-	-5 534 854	-	-	-5 534 854	-4 629 721	-	-905 133	84%	84%
Depreciation and asset impairment	-11 553 079	3 441 000	-8 112 079	-	-	-8 112 079	-8 592 447	-	480 369	106%	74%
Finance charges	-414 000	-	-414 000	-	-	-414 000	-54 490	-	-359 510	13%	13%
Materials and bulk purchases	-3 289 794	875 000	-2 414 794	-	-	-2 414 794	-901 171	-	-1 513 623	37%	27%
Transfers and grants	-2 547 186	-748 000	-3 295 186	-	-	-3 295 186	-1 441 094	-	-1 854 092	44%	57%
Other expenditure	-16 414 021	1 635 860	-14 778 161	-	-	-14 778 161	-10 074 551	-	-4 703 610	68%	61%
<b>Total expenditure</b>	<b>-63 788 540</b>	<b>1 858 320</b>	<b>-61 930 220</b>	<b>-</b>	<b>-</b>	<b>-61 930 220</b>	<b>-53 698 491</b>	<b>-</b>	<b>-8 231 729</b>	<b>87%</b>	<b>84%</b>
<b>Surplus/(Deficit)</b>	<b>-19 729 074</b>	<b>1 110 507</b>	<b>-18 618 567</b>	<b>-</b>	<b>-</b>	<b>-18 618 567</b>	<b>-17 646 192</b>	<b>-</b>	<b>-972 375</b>	<b>170%</b>	<b>166%</b>

# !Kheis Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	15 269 880	-	15 269 880	-		15 269 880	14 862 452		407 428	97%	97%
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>-4 459 194</b>	<b>1 110 507</b>	<b>-3 348 687</b>	<b>-</b>		<b>-3 348 687</b>	<b>-2 783 740</b>		<b>-564 947</b>	<b>267%</b>	<b>263%</b>
<b>Surplus/(Deficit) for the year</b>	<b>-4 459 194</b>	<b>1 110 507</b>	<b>-3 348 687</b>	<b>-</b>		<b>-3 348 687</b>	<b>-2 783 740</b>		<b>-564 947</b>	<b>267%</b>	<b>263%</b>
<b>Capital expenditure and funds sources</b>											
Total capital expenditure	-	-	-	-		-	-		-	0%	0%
<b>Cash flows</b>											
Net cash from (used) operating	-6 303 853	-	-6 303 853	-		-6 303 853	7 493 189		-13 797 042	-119%	-119%
Net cash from (used) investing	16 905 000	-	16 905 000	-		16 905 000	-9 508 291		26 413 291	-56%	-56%
Net cash from (used) financing	-	-	-	-		-	1 908 835		-1 908 835	#DIV/0!	#DIV/0!
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>10 601 147</b>	<b>-</b>	<b>10 601 147</b>	<b>-</b>		<b>10 601 147</b>	<b>-106 268</b>		<b>10 707 415</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>
Cash and cash equivalents at the beginning of the year	-1 097 000	-	-1 097 000	-		-1 097 000	415 655		-1 512 655	-38%	-38%
<b>Cash and cash equivalents at year end</b>	<b>9 504 147</b>	<b>-</b>	<b>9 504 147</b>	<b>-</b>		<b>9 504 147</b>	<b>309 387</b>		<b>9 194 760</b>	<b>3%</b>	<b>3%</b>



## **1. Presentation of Annual Financial Statements**

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

### **1.1 Changes in Accounting Policy and Comparability**

Accounting Policies have been consistently applied, except where otherwise indicated below.

For the years ended 30 June 2014 and 30 June 2015 the municipality has adopted the accounting framework as set out in paragraph 1 above. The details of any resulting changes in Accounting Policy and comparative restatements are set out below and in the relevant Notes to the Annual Financial Statements.

The municipality changes an Accounting Policy only if the change:

- (a) Is required by a Standard of GRAP; or
- (b) Results in the Annual Financial Statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the municipality's financial position, financial performance or cash flow.

### **1.2 Significant judgements and sources of estimation uncertainty**

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statement. Significant judgement include:

#### **1.2.1 Trade receivables / Held to maturity investments and/or loans and receivables**

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

#### **1.2.2 Allowance for slow moving, damaged and obsolete stock**

An allowance is made for slow-moving, damaged and obsolete inventory to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the statement of financial performance.

## **1.2 Significant judgements and sources of estimation uncertainty (Continued)**

### **1.2.3 Fair value estimation**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

### **1.2.4 Provisions and contingent liabilities**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

### **1.2.5 Useful lives of property, plant and equipment and intangible assets**

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

### **1.2.6 Allowance for doubtful debts**

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### **1.2.7 GRAP 24: Presentation of Budget information**

The municipality is required to present a comparison of the budget amounts for which it is held publicly accountable. The comparison of budget and actual amounts present separately for each level of legislative oversight:

- the approved and final budget
- the adjustment budget
- the actual amounts on a comparative basis

### **1.2.8 Revenue Recognition**

Accounting Policy 11.2 on *Revenue from Exchange Transactions* and Accounting Policy 11.3 on *Revenue from Non-exchange Transactions* describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9 (*Revenue from Exchange Transactions*) and GRAP 23 (*Revenue from Non-exchange Transactions*). As far as Revenue from Non-exchange Transactions is concerned (see Basis of Preparation above), and, in particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. Management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

### **1.2.9 Financial Assets and Liabilities**

The classification of Financial Assets and Liabilities, into categories, is based on judgement by management. Accounting Policy 8.1 on *Financial Assets Classification* and Accounting Policy 8.2 on *Financial Liabilities Classification* describe the factors and criteria considered by the management of the municipality in the classification of Financial Assets and Liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of Financial Instruments as set out in GRAP 104 (*Financial Instruments*).

## **1.2 Significant judgements and sources of estimation uncertainty (Continued)**

### **1.2.10 Impairment of Financial Assets**

Accounting Policy 8.4 on *Impairment of Financial Assets* describes the process followed to determine the value at which Financial Assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of Financial Assets as set out in GRAP 104 (*Financial Instruments*) and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that impairment of Financial Assets recorded during the year is appropriate.

- **Impairment of Trade Receivables:**

The calculation in respect of the impairment of Debtors is based on an assessment of the extent to which Debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This is performed per service-identifiable categories across all classes of debtors.

### **1.2.11 Useful lives of Property, Plant and Equipment, Intangible Assets and Investment Property**

As described in Accounting Policies 3.3, 4.2 and 5.2, the municipality depreciates its Property, Plant & Equipment and Investment Property, and amortises its Intangible Assets, over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use.

The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

### **1.2.12 Impairment: Write-down of Property, Plant & Equipment, Intangible Assets, Investment Property, Heritage Assets and Inventories**

Accounting Policy 7 on *Impairment of Assets*, Accounting Policy 4.2 on *Intangible Assets – Subsequent Measurement, Amortisation and Impairment* and Accounting Policy 9.2 on *Inventory – Subsequent Measurement* describe the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to impairment testing of Property, Plant and Equipment, impairment testing of Intangible Assets and write-down of Inventories to the lowest of Cost and Net Realisable Value.

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 21 (Impairment of Non-cash Generating Assets) and GRAP 26 (Impairment of Cash Generating Assets). In particular, the calculation of the recoverable service amount for PPE and Intangible Assets and the Net Realisable Value for Inventories involves significant judgment by management.

### **1.2.13 Water Inventory**

The estimation of the Water Inventory in reservoirs is based on the measurement of water via electronic level sensors, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir. Furthermore, the length and width of all pipes are also taken into account in determining the volume of water on hand at year-end. Refer to Accounting Policy 9.2.2.

## **IKheis Local Municipality**

Annual Financial Statements for the year ended 30 June 2016

### **Accounting Policies**

#### **1.2 Significant judgements and sources of estimation uncertainty (Continued)**

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##### **1.2.14 Provisions and Contingent Liabilities**

Management judgement is required when recognising and measuring Provisions and when measuring Contingent Liabilities. Provisions are discounted where the effect of discounting is material using actuarial valuations.

##### **1.3 Presentation Currency**

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand which is the municipality's functional currency.

##### **1.4 Going Concern Assumption**

The Annual Financial Statements have been prepared on a *Going Concern Basis*.

##### **1.5 Offsetting**

Assets, Liabilities, Revenues and Expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

##### **1.6 Standards, Amendments to Standards and Interpretations issued but not yet Effective**

The following GRAP Standards have been issued but are not yet effective and have not been early adopted by the municipality:

- GRAP 16 (as amended 2015): Investment Property
- GRAP 17 (as amended 2015): Property, Plant and Equipment
- GRAP 18 Segment Reporting - issued March 2005
- GRAP 20 Related Party Disclosures (Revised)
- GRAP 21 (as amended 2015): Impairment of non-cash generating assets
- GRAP 26 (as amended 2015): Impairment of cash generating assets
- GRAP 32 Service Concession Arrangement Grantor
- GRAP 105 Transfers between Entities under common control - issued November 2010
- GRAP 106 Transfers between Entities not under common control - issued November 2010
- GRAP 107 Mergers - issued November 2010
- GRAP 108 Statutory Receivables
- GRAP 109 Accounting by Principals and Agents
- GRAP 110 Living and Non-living resources

The following GRAP Standards and Interpretations are effective and adopted in the current years:

- GRAP 105 Transfers between Entities under common control - issued November 2010
- GRAP 106 Transfers between Entities not under common control - issued November 2010
- GRAP 107 Mergers - issued November 2010
- iGRAP 11 Consolidations - Special purpose entities
- iGRAP 12 Jointly controlled entities - Non-monetary contributions by ventures
- Service Concession arrangements where a grantor a significant residential interest in an
- iGRAP 17 asset
- iGRAP 18 Recognition and derecognition of land
- iGRAP 19 Liabilities to pay levies
- GRAP 6 (as approved 2015): Consolidated and Separate Financial Statements
- GRAP 7 (as approved 2015): Investments in Associates
- GRAP 8 (as revised 2015): Interest in Joint Ventures
- Directive 11: Changes in Measurement Bases following the Adoption of Standards of GRAP
- Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

The Minister of Finance announced that the application of GRAP 25 will be effective for the period starting after 1 April 2013. All other standards as listed above will only be effective when a date is announced by the Minister of Finance. This date is not currently available.

**1.6 Standards, Amendments to Standards and Interpretations issued but not yet Effective (continued)**

The ASB Directive 5, paragraph 29, sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy as set out in the standard of GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors*.

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board, International Financial Reporting Standards or Generally Accepted Accounting Principles. Where a standard of GRAP has been issued but is not yet in effect, the municipality may select to apply the principles established in that standard in developing an appropriate Accounting Policy dealing with a particular section or event before applying paragraph 12 of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The municipality applied the principles established in the following Standards of GRAP that have been issued but are not yet effective, in developing appropriate Accounting Policies dealing with the following transactions, but have not early adopted these Standards:

- GRAP 20 Related Party Disclosures (Revised)

Management has considered all of the above-mentioned GRAP Standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

**2. Property, plant and equipment**

**2.1 Initial Recognition**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of Property, Plant and Equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, Plant and Equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grants or donations, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of Property, Plant and Equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

## **2. Property, plant and equipment (Continued)**

### **2.1 Initial Recognition (Continued)**

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

### **2.2 Subsequent Measurement**

Subsequent expenditure relating to Property, Plant and Equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

### **2.3 Depreciation**

Depreciation on assets other than land is calculated on cost, using the *Straight-line Method*, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Each part of an item of Property, Plant and Equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation only commences when the asset is available for use, unless stated otherwise. The depreciation rates are based on the following estimated useful lives:

The useful lives of items of property, plant and equipment have been assessed as follows:

## **!Kheis Local Municipality**

Annual Financial Statements for the year ended 30 June 2016

### **Accounting Policies**

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#### **2.3 Depreciation (Continued)**

##### **Buildings**

- Buildings	25-30 Years
- Improvements	25-30 Years
- Recreational Facilities	20-30 Years

##### **Infrastructure**

- Roads and paving	30 Years
- Pedestrian malls	15-30 years
- Electricity	20-30 years
- Water resevoirs	15-20 years
- Sewerage pump stations	15-20 years
- Housing	25-30 years

##### **Other property, plant and equipment**

- Specialist vehicles	5-10 years
- Other vehicles	4-7 years
- Office equipment	3-7 years
- Furniture and Fittings	7-10 years
- Bins and containers	5 years
- Specialized plant and equipment	10-15 years
- Other plant and equipment	2-5 years
- Landfill sites	15 years
- Lease hold property	3-5 years
- Security	3-5 years

The assets' residual values, estimated useful lives and depreciation method are reviewed annually and adjusted prospectively, if appropriate, at each reporting date. Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

#### **2.4 Land**

Land is stated at historical cost and is not depreciated as it is deemed to have an indefinite useful life.

#### **2.5 Infrastructure Assets**

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure Assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure Assets are treated similarly to all other assets of the municipality in terms of the Asset Management Policy.

#### **2.6 Incomplete Construction Work**

Incomplete Construction Work is stated at historical cost. Depreciation only commences when the asset is

#### **2.7 Leased Assets**

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as Property, Plant and Equipment controlled by the municipality or, where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease

## **2. Property, plant and equipment (continued)**

### **2.8 Derecognition**

The carrying amount of an item of Property, Plant and Equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of Property, Plant and Equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the proceeds from disposals are included in the Statement of Financial Performance as a gain or loss on disposal of Property, Plant and Equipment.

### **3. Intangible assets**

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.



**Intangible assets (continued)**

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

<b>Item</b>	<b>Useful life</b>
Computer software, other	5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

**4. Financial Instruments Classification**

The municipality classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

**Initial recognition and measurement**

Financial instruments are recognised initially when the municipality becomes a party to the contractual

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

**Subsequent measurement**

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Consumer deposits are subsequently recorded in accordance with the accounting policy of trade and other payable.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

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#### **4. Financial Instruments Classification (continued)**

##### **Fair value determination**

Fair value information for trade and other receivables is determined as the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The fair values of quoted investment are based on current bid prices

If the market for a financial asset is not active ( and for unlisted securities ) , municipality established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs.

##### **The Effective Interest Rate Method**

The Effective Interest Method is a method of calculating the amortised cost of a Financial Asset or a Financial Liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the Financial Instrument or, when appropriate, a shorter period to the net carrying amount of the Financial Asset or Financial Liability.

##### **Amortised Cost**

Amortised Cost is the amount at which the Financial Asset or Financial Liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation, using the Effective Interest Rate Method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

##### **4.1 Impairment of financial assets**

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

In accordance with GRAP 104 the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

#### **4. Financial Instruments Classification (continued)**

##### **4.1 Impairment of financial assets (Continued)**

- **Financial Assets measured at Amortised Cost** are non-derivative Financial Assets with fixed or determinable payments that are not quoted in an active market. They are included in Current Assets, except for maturities greater than 12 months, which are classified as Non-current Assets. Financial Assets at Amortised Cost are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the Financial Asset. After initial recognition, Financial Assets are measured at amortised cost, using the *Effective Interest Rate Method* less a provision for impairment.
- **Financial Assets measured at Fair Value** are financial assets that meet either of the following conditions:
  - (i) Derivatives;
  - (ii) Combined instruments that are designated at fair value;
  - (iii) Instruments held for trading;
  - (iv) Non-derivative Financial Instruments with fixed or determinable payments that are
  - (v) Financial Instruments that do not meet the definition of Financial Instruments at Amortised
- **Financial Assets measured at Cost** are investments in residual Interest that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

The municipality has the following types of Financial Assets as reflected on the face of the Statement of Financial Position or in the Notes thereto:

<b>Type of Financial Asset</b>	<b>Classification in terms of GRAP 104</b>
Non-current Investments	Financial Assets at Amortised Cost
Long-term Receivables	Financial Assets at Amortised Cost
Receivables from Exchange Transactions	Financial Assets at Amortised Cost
Receivables from Non-exchange Transactions	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Notice Deposits	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Call Deposits	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Bank	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Cash	Financial Assets at Fair Value
Current Portion of Non-current Investments	Financial Assets at Amortised Cost
Current Portion of Long-term Receivables	Financial Assets at Amortised Cost

Cash includes cash-on-hand (including petty cash) and cash with banks (including call deposits). Cash Equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, which are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the Cash Flow Statement, Cash and Cash Equivalents comprise cash-on-hand and deposits held on call with banks, net of bank overdrafts. The municipality categorises Cash and Cash Equivalents as Financial Assets at Amortised Cost.

#### **4.2 Financial Liabilities – Classification**

A Financial Liability is a contractual obligation to deliver cash or another Financial Assets to another entity.

There are three main categories of Financial Liabilities, the classification determining how they are measured. Financial Liabilities may be measured at:

- (i) Financial Liabilities measured at Fair Value;
- (ii) Financial Liabilities measured at Amortised Cost; or
- (iii) Financial Liabilities measured at Cost.

**4. Financial Instruments Classification (continued)****4.2 Financial Liabilities – Classification (Continued)**

The municipality has the following types of Financial Liabilities as reflected on the face of the Statement of Financial Position or in the Notes thereto:

Type of Financial Asset	Classification in terms of GRAP 104
Long-term Liabilities	Financial Liabilities at Amortised Cost
Payables from Exchange Transactions	Financial Liabilities at Amortised Cost
Payables from Non-exchange Transactions	Financial Liabilities at Amortised Cost
Bank Overdraft	Financial Liabilities at Amortised Cost
Short-term Loans	Financial Liabilities at Amortised Cost
Current Portion of Long-term Liabilities	Financial Liabilities at Amortised Cost

**Financial Liabilities that are measured at Fair Value** are Financial Liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of Financial Instruments where there is recent actual evidence of short-term profiteering or are derivatives).

Bank Overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

**4.3 Initial and Subsequent Measurement****4.3.1 Financial Assets:****Financial Assets measured at Amortised Cost**

*Financial Assets at Amortised Cost* are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the Financial Asset. Subsequently, these assets are measured at amortised cost using the *Effective Interest Method* less any impairment, with interest recognised on an *Effective Yield Basis*.

*Trade and Other Receivables* (excluding Value Added Taxation, Prepayments and Operating Lease receivables), Loans to Municipal Entities and Loans that have fixed and determinable payments that are not quoted in an active market are classified as *Financial Assets at Amortised Cost*.

**Financial Assets measured at Fair Value**

*Financial Assets at Fair Value* are initially measured at fair value, excluding directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in the Statement of Financial Performance.

**4.3.2 Financial Liabilities:****Financial Liabilities measured at Fair Value**

*Financial Liabilities at Fair Value* are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

**Financial Liabilities held at Amortised Cost**

Any other Financial Liabilities are classified as *Other Financial Liabilities* (All Payables, Loans and Borrowings are classified as Other Liabilities) and are initially measured at fair value, net of transaction costs. Trade and Other Payables, Interest-bearing Debt including Finance Lease Liabilities, Non-interest-bearing Debt and Bank Borrowings are subsequently measured at amortised cost using the *Effective Interest Rate Method*. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

#### **4. Financial Instruments Classification (continued)**

##### **Financial Liabilities held at Amortised Cost (Continued)**

Bank Borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the *Accrual Basis* and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Prepayments are carried at cost less any accumulated impairment losses.

##### **4.3.3 Receivables from exchange transactions**

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncorrectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

##### **4.3.4 Payables from exchange transactions**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

##### **4.3.5 Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

##### **4.3.6 Bank overdraft and borrowings**

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

##### **4.3.7 Derivatives**

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in surplus or deficit.

Changes in the fair value of derivative financial instruments are recognised in surplus or deficit as they arise.

Derivatives are classified as financial assets at fair value through surplus or deficit - held for trading.

#### **4.3.8 Held to maturity**

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

#### **4.3.9 Gains and losses**

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

A gain or loss on an available - for - sale financial asset is recognised directly in net assets, through

- the statement of changes in net assets, until financial assets is derecognised, at time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and

For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in

- surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process

#### **4.3.10 Impairment of financial assets**

The municipality assesses at each statement of financial position date whether a financial asset or group of

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

### **5. Leases**

#### **5.1 Classification**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

## **5. Leases (Continued)**

### **5.2 *The Municipality as Lessee***

#### **5.2.1 Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

#### **5.2.2 Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

### **5.3 The Municipality Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### **5.4 *Determining whether an Arrangement contains a Lease***

At inception of an arrangement, the municipality determines whether such an arrangement is, or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the municipality the right to control the use of the underlying asset. At inception, or upon reassessment of the arrangement, the municipality separates payments and other considerations required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the municipality concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the municipality's incremental borrowing rate.

## **6. Inventories**

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

## **6. Inventories (continued)**

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

## **7. Impairment of cash-generating assets**

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or

### **7.1 Identification**

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

### **7.2 Value in use**

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.



## **7. Impairment of cash-generating assets (Continued)**

### **7.3 Discount rate**

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

### **7.4 Recognition and measurement (individual asset)**

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### **7.5 Cash-generating units**

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

## **7. Impairment of cash-generating assets (Continued)**

### **7.5 Cash-generating units (Continued)**

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

### **7.6 Reversal of impairment loss**

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### **7.7 Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

## **7. Impairment of cash-generating assets (continued)**

### **7.8 Impairment of non-cash-generating assets**

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return.

When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Useful life is either:

- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

### **7.9 Identification**

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

### **7.10 Value in use**

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

### **7.11 Depreciated replacement cost approach**

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

## **7. Impairment of cash-generating assets (continued)**

### **7.12 Restoration cost approach**

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

### **7.13 Service units approach**

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

### **7.14 Recognition and measurement**

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### **7.15 Reversal of an impairment loss**

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### **7.18 Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

## **8. Employee benefits**

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide postemployment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

### **8.1 Short-term employee benefits**

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

## **8. Employee benefits (continued)**

### **8.1 Short-term employee benefits (continued)**

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

### **8.2 Long Service Awards**

Where the entity pay insurance premiums to fund a post-employment benefit plan, the entity treats such a plan as a defined contribution plan unless the entity will have (either directly or indirectly through the plan) a legal or constructive obligation to either:

- pay the employee benefits directly when they fall due; or
- pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior reporting periods.

If the entity retains such a legal or constructive obligation, the entity treats the plan as a defined benefit plan.

### **8.3 Provisions and contingencies**

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

**8. Employee benefits (continued)**

**8.3 Provisions and contingencies (continued)**

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

## **8. Employee benefits (continued)**

### **8.3 Provisions and contingencies (continued)**

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date.

Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

## **9. REVENUE RECOGNITION**

### **9.1 General**

Revenue is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits or service potential will flow to the municipality and when specific criteria have been met for each of the municipality's activities as described below, except when specifically stated otherwise. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore, services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

*Revenue from Exchange Transactions* refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

*Revenue from Non-exchange Transactions* refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

### **9.2 Revenue from exchange transactions**

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Revenue consists primarily of grants of National- and Provincial Government, service charges, rentals, interest received and other service rendered



## **9. REVENUE RECOGNITION (Continued)**

### **9.2 Revenue from exchange transactions (Continued)**

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

When considering the probability of the future economic benefits that will flow to the entity, consideration is given to the requirements as outlined in IGRAP 1

#### **9.2.1 Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### **9.2.2 Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### **9.2.3 Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Rendering of services consist out of solid waste, sanitation, sewerage and water.

## **9. REVENUE RECOGNITION (Continued)**

### **9.2.4 Interest**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

### **9.2.5 Service Charges**

Service Charges are levied in terms of approved tariffs.

Service Charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to all properties that have improvements. Tariffs are determined per category of property usage, and are levied based on the number of refuse collections on each property during the week.

Service charges relating to sewerage and sanitation are recognised on a monthly basis in arrears by applying the approved tariff to all properties. Tariffs are determined per category of property usage, and are levied based on the extent of each property.

### **9.2.6 Rentals Received**

Revenue from the rental of facilities and equipment is recognised on a *Straight-line Basis* over the term of

### **9.2.7 Finance Income**

Interest earned on investments is recognised in the Statement of Financial Performance on the *Time-proportionate Basis* that takes into account the effective yield on the investment.

Interest earned on the following investments is not recognised in the Statement of Financial Performance:

- Interest earned on Trust Funds is allocated directly to the fund.
- Interest earned on unutilised Conditional Grants is allocated directly to the Creditor: Unutilised

### **9.2.8 Dividends**

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

## **9. REVENUE RECOGNITION (Continued)**

### **9.2.9 Royalties**

Royalties are recognised on an *Accrual Basis* in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a *Straight-line Basis* over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

### **9.2.10 Tariff Charges**

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

### **9.2.11 Revenue from Agency Services**

Revenue for agency services is recognised on a monthly basis once the revenue collected on behalf of agents has been quantified. The revenue recognised is in terms of the agency agreement.

### **9.2.12 Sale of Goods (including Houses)**

Revenue from the sale of goods is recognised when all the following conditions have been met:

- (a) The municipality has transferred to the buyer the significant risks and rewards of ownership of
- (b) The municipality retains neither continuing managerial involvement to the degree usually
- (c) The amount of revenue can be measured reliably;
- (d) It is probable that the economic benefits or service potential associated with the transaction will
- (e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

### **9.2.13 Investment income**

Investment income is recognised on a time-proportion basis using the effective interest method.

## **9.3 Revenue from Non-exchange Transactions**

An inflow of resources from a Non-exchange Transaction, that meets the definition of an asset shall be recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the fair value of the asset can be measured reliably. The asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

A present obligation arising from a Non-exchange Transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

### **9.3.1 Rates and Taxes**

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a *Time-proportionate Basis* with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

## **9. REVENUE RECOGNITION (Continued)**

### **9.3.2 Fines**

Fines constitute both spot fines and summonses. Revenue from the issuing of fines is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably.

There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender.

An estimate is made for revenue from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue is recognised when the public prosecutor pays the cash collected over to the municipality.

Assessing and recognising impairment is an event that takes place subsequent to the initial recognition of revenue charged. The municipality assesses the probability of collecting revenue when accounts fall into arrears. Such an assessment is not made at the time of initial recognition.

### **9.3.3 Public Contributions**

Donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Assets acquired from non-exchange transactions are measured at fair value in accordance with the Standards of GRAP.

### **9.3.4 Government Grants and Receipts**

Equitable share allocations are recognised in revenue at the start of the financial year if no time-based restrictions exist.

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the Statement of Financial Performance in the period in which they become receivable.

## **9. REVENUE RECOGNITION (Continued)**

### **9.3.4 Government Grants and Receipts (Continued)**

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

## **10. Borrowing costs**

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

## **11. Comparative figures**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the

## **12. Unauthorised expenditure**

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

## **13. Fruitless and wasteful expenditure**

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

## **14. Irregular expenditure**

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

#### **14. Irregular expenditure (Continued)**

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### **15. Use of estimates**

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

#### **16. Offsetting**

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

#### **17. Housing development fund**

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

## **IKheis Local Municipality**

Annual Financial Statements for the year ended 30 June 2016

### **Accounting Policies**

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#### **18. Investments**

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

#### **19. Segmental information**

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

#### **20. Budget information**

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2013/07/01 to 2016/06/30.

The annual financial statements and the budget are not on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

#### **21. Related parties**

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Related party disclosures for transactions between government entities that took place on terms and conditions that are considered to be at arms length and in the ordinary course of business are not disclosed in accordance with IPSA 20 Related Party Disclosure.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling, the activities of the entity, We regard all individuals from the level of Accounting Officer and Council members as well as managers and directors reporting directly to the municipal manager as key management per the definition of the financial reporting standard.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

#### **22. Value added tax**

The municipality is registered with SARS for VAT on the payment basis, in accordance with Sec 15(2)(a) of the Value-Added tax Act No 89 of 1991.

### **23. Capital commitments**

Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes. A distinction is made between capital and current commitments.

Commitments are disclosed for:

Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.

Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.

Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality.

### **24. Provisions**

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

The best estimate of the expenditure required to settle the present obligation is the amount that the municipality would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the municipality, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it – this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

#### **10.2 Provision for Environmental Rehabilitation**

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the municipality's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.



**!Kheis Local Municipality**

Annual Financial Statements for the year ending 30 June 2017

**Notes to the Annual Financial Statements**

Figures in Rand	2017	2016
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**2. Changes in accounting policy**

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2016 is as follows:

**Statement of financial position****Cash flow statement**

Management do not have sufficient records relating to interest capitalised on plant and equipment to enable retrospective expensing of borrowing cost. For this reason the change in accounting policy is applied prospectively.

**3. New standards and interpretations****3.1 Standards and interpretations effective and adopted in the current year**

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

<b>Standards/Interpretation:</b>	<b>Effective date:</b>	<b>Expected impact:</b>
	<b>Years beginning on or after</b>	

**3.1 Standards and interpretations issued but not yet effective**

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods:

<b>Standards/Interpretation:</b>	<b>Effective date:</b>	<b>Expected impact:</b>
	<b>Years beginning on or after</b>	

GRAP 18: Segment Reporting	01 April 2015
GRAP 105: Transfers of functions between entities under common control	01 April 2015
GRAP 106: Transfers of functions between entities not under common control	01 April 2015
GRAP 107: Mergers	01 April 2015
GRAP 20: Related parties	01 April 2016

IGRAP 11: Consolidation – Special purpose entities	01 April 2015
IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2015
GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2015
GRAP 7 (as revised 2010): Investments in Associates	01 April 2015
GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2015

**!Kheis Local Municipality**

Annual Financial Statements for the year ending 30 June 2017

**Notes to the Annual Financial Statements**

Figures in Rand

2017

2016

**3.1 Standards and interpretations issued but not yet effective (continued)****Standards/Interpretation:****Effective date:****Expected impact:****Years beginning on or  
after**GRAP32: Service Concession Arrangements:  
Grantor

01 April 2016

GRAP108: Statutory Receivables

01 April 2016

IGRAP17: Service Concession Arrangements  
where a Grantor Controls a Significant Residual  
Interest in an Asset

01 April 2016

DIRECTIVE 11: Changes in measurement bases  
following the initial adoption of Standard of GRAP

01 April 2016

**2.3 Standards and interpretations not yet effective or relevant**

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 June 2015 or later periods but are not relevant to its operations:

**Standards/Interpretation:****Effective date:****Expected impact:****Years beginning on or  
after**

**!Kheis Local Municipality**

Annual Financial Statements for the year ending 30 June 2017

**Notes to the Annual Financial Statements**

Figures in Rand	2017	2016
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**4. Property, plant and equipment**

	2017			2016		
	Cost/Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost/Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	57 544 582	-3 037 380	54 507 202	57 544 582	-2 642 434	54 902 148
Infrastructure	115 924 397	-58 063 783	57 860 614	109 686 735	-53 149 015	56 537 720
Community	12 375 473	-5 887 669	6 487 803	11 555 693	-4 986 350	6 569 343
Other property, plant and equipment	15 783 348	-13 819 341	1 964 006	7 715 445	-5 516 952	2 198 493
Lease hold assets	4 969 064	-1 921 721	3 047 343	4 221 406	-3 116 897	1 104 509
<b>Total</b>	<b>206 596 863</b>	<b>-82 729 894</b>	<b>123 866 968</b>	<b>190 723 861</b>	<b>-69 411 648</b>	<b>121 312 213</b>
<b>Work in progress</b>			37 484 707			34 822 748
<b>Total</b>			<b>161 351 675</b>			<b>156 134 961</b>

**Reconciliation of property, plant and equipment - 2017**

	Opening balance	Additions	Disposals	Disposals - Depreciation	Depreciation	Total
Buildings	54 902 147	-	-	-	-394 946	54 507 201
Infrastructure	62 493 376	-	-	-	-4 632 763	57 860 613
Community	6 647 634	603 694	-	-	-763 524	6 487 804
Other property, plant and equipment	2 770 196	59 708	-377	-	-865 521	1 964 006
Other lease assets	1 104 509	5 023 554	-1 158 999	-	-1 921 721	3 047 343
Work in progress	34 822 748	2 661 959				37 484 707
	<b>162 740 610</b>	<b>8 348 915</b>	<b>-1 159 376</b>	<b>-</b>	<b>-8 578 475</b>	<b>161 351 675</b>

**Reconciliation of property, plant and equipment - 2016**

	Opening balance	Additions	Disposals	Other changes - movements	Depreciation	Total
Buildings	55 274 508	-	-	-	-372 360	54 902 148
Infrastructure	60 779 312	-	-	-	-4 241 591	56 537 720
Community	7 217 253	-	-	-	-647 909	6 569 344
Other property, plant and equipment	2 980 800	34 474	-1 766	-	-815 018	2 198 491
Other lease assets	2 661 185	-	-	-	-1 556 676	1 104 509
Work in progress	18 720 819	16 101 929				34 822 748
	<b>147 633 877</b>	<b>16 136 403</b>	<b>-1 766</b>	<b>-</b>	<b>-7 633 554</b>	<b>156 134 961</b>

**Assets subject to finance lease (net carrying value)**

No assets have been pledged as collateral for liabilities of the municipality

**5. Other financial assets****At amortised cost****Unlisted Investments**

First National Bank - Branch: Groblershoop, Account number 711297993876 97 972 91 119

Interest rate: 6,38%, Investment term is 12 months

First National Bank. Branch: Groblershoop Account number 71197351979 - 600 000

Interest rate: 5,95%, Investment term is 6 months

<b>97 972</b>	<b>691 119</b>
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No investment have been pledged as collateral for liabilities of the municipality

**!Kheis Local Municipality**

Annual Financial Statements for the year ending 30 June 2017

**Notes to the Annual Financial Statements****6. Inventories**

Inventories	261 821	83 806
Water	66 786	22 706
	<b>328 607</b>	<b>106 512</b>

As the municipality do not made use of a formal inventory system, and inventory are determined via a stock take at year end of all unused materials. Inventory are recorded through the adjustment journals set off against repairs and maintenance expenses.

**Inventory pledged as security**

No inventories have been pledged as collateral for liabilities of the municipality

**7. Receivables from non-exchange transactions**

Rates and other taxes	77 970	30 051
Property Rates	8 282 456	10 655 846
Impairment	-6 293 631	-8 492 605
Housing Suspense Debtor	616 672	227 165
Various controls	880 866	-
Sundry Debtors	1 588 706	1 936 200
	<b>5 153 039</b>	<b>4 356 656</b>

**8. VAT receivable/ (payable)**

VAT receivable	52 050	169 318
VAT payable	-3 176 273	-2 760 177

The municipality is registered at SARS on the payments basis. Only once payment is received from debtors, VAT is paid over to SARS. All VAT returns have been submitted by the due date throughout the year.

**9. Trade and other receivables from exchange transactions****Gross balances**

Water	10 506 256	9 325 693
Sewerage	6 392 879	5 547 240
Refuse	9 476 604	8 179 678
Other debtors	2 764 592	4 369 224
VAT debtors	3 176 273	2 760 177
	<b>32 316 603</b>	<b>30 182 012</b>

**Less: Allowance for impairment**

Water	-7 983 441	-7 432 487
Sewerage	-4 857 789	-4 421 097
Refuse	-7 201 034	-6 519 125
Other debtors	-2 100 744	-3 482 230
	<b>-22 143 008</b>	<b>-21 854 939</b>

**Net balance**

Water	2 522 815	1 893 206
Sewerage	1 535 090	1 126 143
Refuse	2 275 570	1 660 553
Other debtors	663 848	886 994
VAT debtors	3 176 273	2 760 177
	<b>10 173 595</b>	<b>8 327 073</b>
Less: Debtors with credit balances	-	-
<b>Net balance of trade and receivables from exchange transaction</b>	<b>10 173 595</b>	<b>8 327 073</b>

**!Kheis Local Municipality**  
Annual Financial Statements for the year ending 30 June 2017  
**Notes to the Annual Financial Statements**

Age analysis as per services (segments) excluding debtors with credit balances.

**Rates**

Current (0 - 30 days)	-16 368	319 638
31 - 60 days	1 111 850	439 620
61 - 90 days	73 803	22 049
91 - 120 days	34 202	20 340
121 - 365 days	13 335 845	9 854 200
	<b>14 539 332</b>	<b>10 655 846</b>

**Water**

Current (0 - 30 days)	-106	38
31 - 60 days	214 706	237 570
61 - 90 days	213 430	206 042
91 - 120 days	249 623	154 298
121 - 365 days	9 508 421	8 727 745
> 365 days	-	-
	<b>10 186 074</b>	<b>9 325 693</b>

**Sewerage**

Current (0 - 30 days)	-	-
31 - 60 days	95 324	106 023
61 - 90 days	69 353	72 863
91 - 120 days	137 377	71 382
121 - 365 days	5 624 795	5 296 973
> 365 days	-	-
	<b>5 926 849</b>	<b>5 547 240</b>

**Refuse**

Current (0 - 30 days)	-237	-
31 - 60 days	125 833	142 755
61 - 90 days	119 704	114 968
91 - 120 days	208 472	112 047
121 - 365 days	8 347 696	7 809 908
> 365 days	-	-
	<b>8 801 468</b>	<b>8 179 678</b>

**Other (specify)**

Current (0 - 30 days)	-8 243 449	-
31 - 60 days	29 635	954 787
61 - 90 days	27 373	29 869
91 - 120 days	40 215	29 869
121 - 365 days	13 119 105	3 354 700
	<b>4 972 878</b>	<b>4 369 224</b>

**Summary of debtors by customer classification**

**Consumers**

Current (0 - 30 days)	-7 811 035	-812 826
31 - 60 days	926 111	337 603
61 - 90 days	358 475	367 988
91 - 120 days	610 766	337 286
121 - 365 days	46 657 509	40 039 472
	<b>40 741 826</b>	<b>40 269 523</b>

**Industrial/Commercial**

Current (0 - 30 days)	-347 715	126 307
31 - 60 days	532 850	133 852
61 - 90 days	105 790	33 879
91 - 120 days	34 321	40 143
121 - 365 days	1 750 773	1 306 275
	<b>2 076 020</b>	<b>1 640 456</b>

**National and provincial government**

Current (0 - 30 days)	-88 805	791 354
31 - 60 days	117 949	33 485
61 - 90 days	38 926	37 379
91 - 120 days	24 196	27 457
121 - 365 days	1 516 490	1 119 831
	<b>1 608 755</b>	<b>2 009 506</b>

**Total**

Current (0 - 30 days)	-8 247 555	104 835
31 - 60 days	1 576 910	504 940
61 - 90 days	503 191	439 246
91 - 120 days	669 283	404 886
121 - 365 days	49 924 771	42 465 578
	<b>44 426 601</b>	<b>43 919 485</b>
Less: Allowance for impairment	-28 436 639	-30 347 546
	<b>15 989 962</b>	<b>13 571 939</b>

**!Kheis Local Municipality**

Annual Financial Statements for the year ending 30 June 2017

**Notes to the Annual Financial Statements****Reconciliation of allowance for impairment**

Balance at beginning of the year	-30 347 544	-35 650 227
Contributions to allowance	-4 629 721	-5 534 854
Less: Bad debts written-off/Corrections	6 540 627	10 837 537
	<b>-28 436 638</b>	<b>-30 347 544</b>

**Receivables from Non-Exchange transactions**

Other debtors include outstanding debtors for various other services, e.g. rentals, sundry, etc.

The Provision for Impairment on Receivables exists predominantly due to the possibility that these debts will not be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

In determining the recoverability of a Receivable, the municipality considers any change in the credit quality of the Receivable from the date credit was initially granted up to the reporting date. Furthermore, the municipality has also placed a strong emphasis on verifying the indigent status of consumers. The concentration of credit risk is limited due to the customer base being spread over a large number of consumers and is not concentrated in any particular sector or geographical area. Accordingly, management believe that there is no further credit provision required in excess of the Provision for Impairment.

In determining the recoverability of Receivables, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of Receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the Provision for Impairment.

No provision has been made in respect of government debt as these amounts are considered to be fully recoverable.

**Consumer debtors pledged as security**

None of the consumer debtors were pledged as security for any financial liability.

**Interest on consumer accounts**

No interest were charged/levied on arrear consumer (debtors) accounts.

**Consumer debtors impaired**

As of 30 June 2017, consumer debtors of R44 426 600 - (2016: R36 166 625) were impaired and provided for. In determining the recoverability of a consumer debtor, the municipality consider any change in the credit quality of the trade receivable from the date credit was granted up to the end of the reporting period.

**10. Cash and cash equivalents**

Cash and cash equivalents consist of:

Cash on hand	-449	1 526
Bank balances	108 990	235 665
Short-term deposits	200 847	178 464
	<b>309 387</b>	<b>415 655</b>

**Credit quality of cash at bank and short term deposits, excluding cash on hand**

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings, if available:

**!Kheis Local Municipality**

Annual Financial Statements for the year ending 30 June 2017

**Notes to the Annual Financial Statements****The municipality had the following bank accounts**

Account number / description	Bank statement balances			Cash book balances		
	30-Jun-17	30-Jun-16	30-Jun-15	30-Jun-17	30-Jun-16	30-Jun-15
First National Bank Branch: Groblershoop Account number: 62150559486	109 440	235 665	318 803	108 990	235 665	321 893
First National Bank: Branch: Groblershoop Account number 62150559486 - FMG/MSIG	73 988	623	23 343			
First National Bank. Branch: Groblershoop Account number 62304431828 - Library Account	37 894	767	17 256			
First National Bank. Branch: Groblershoop Account number 62304432123 - LOTTO account	1 182	85 427	10 637			
First National Bank. Branch: Groblershoop Account number 62102417567 - MIG Account	17 142	89 716	21 063			
First National Bank. Branch: Groblershoop Account number 71129793876 - BUSS Eff	97 972	91 119	85 654	298 818	869 583	799 457
First National Bank. Branch: Groblershoop Account number 62364746986 - Pula Nala	6	992	10 268			
First National Bank. Branch: Groblershoop Account number 62364746580 - EPWP Account	70 635	938	31 235			
First National Bank. Branch: Groblershoop Account number 71197351979 - Fixed Deposit	-	600 000	600 000			
<b>Total</b>	<b>408 258</b>	<b>1 105 248</b>	<b>1 118 259</b>	<b>407 808</b>	<b>1 105 248</b>	<b>1 121 350</b>

**!Kheis Local Municipality**  
Annual Financial Statements for the year ending 30 June 2017  
**Notes to the Annual Financial Statements**

**11. Finance lease obligation**

**Minimum lease payments due**

- within one year	846 634	1 532 460
- in second to fifth year inclusive	3 290 367	1 381 533
	4 137 002	2 913 992
less: future finance charges	-54 490	-265 060
<b>Present value of minimum lease payments</b>	<b>4 082 512</b>	<b>2 648 932</b>

**Present value of minimum lease payments due**

- within one year	846 634	1 532 460
- in second to fifth year inclusive	3 290 367	1 381 533
- less interest	-54 490	-265 060
	<b>4 082 512</b>	<b>2 648 932</b>

Less: Amount re allocated for short term portion	846 634	1 532 460
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It is municipality policy to lease certain equipment under finance leases.

The municipality enters into a new lease agreement on 01 July 2016 of this financial year. The previous lease agreements has been cancelled. The average lease term was 5 years and the average effective borrowing rate was 15% (2015: 13,95%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.

**12. Unspent conditional grants and receipts**

**Unspent conditional grants and receipts comprises of:**

Upgrading Boegoeberg Sportgrounds	-	60 452
MIG Grants	-	-
Library Grant	544 003	190 142
MSIG	-	-
	<b>544 003</b>	<b>250 594</b>

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

The municipality has complied with all the conditions set by the transferring organs of state or the conditions set by the other institutions who made allocations to the municipality. The unspent portion of conditional allocations are disclosed as unspent conditional grants on the face value of the Statement of Financial Position of the municipality.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

**13. Provisions**

Opening balance	3 735 806	2 866 629
Contribution for the year	414 210	869 177
Change in Provision for Rehabilitation costs	-	-
<b>Total provision</b>	<b>4 150 016</b>	<b>3 735 806</b>

**Reconciliation of provisions – 2016**

	<b>Opening Balance</b>	<b>Additions</b>	<b>Total</b>
Environmental rehabilitation	3 538 441	265 383	3 803 824
	<b>3 538 441</b>	<b>265 383</b>	<b>3 803 824</b>

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites to a condition whereby it complies to the permit requirements issued in terms of the Mineral and Petroleum Resources Development Act, (Act 28 of 2002). This provision adjusted according to new calculation by Consulting Engineers.

The consultants find that the landfill sites are non-compliant according to Chapter 3 of National Environmental Management Act (Act 107 of 1998) and Chapter 4, Section 20 and Chapter 7, Section 67 (1) (a) of the National Environmental Management: Waste Act, (Act 59 of 2008).

Some of the landfill sites are at a capacity of 80%, based on the calculations, we can dump waste for at least two additional years.



**!Kheis Local Municipality**

Annual Financial Statements for the year ending 30 June 2017

**Notes to the Annual Financial Statements****14. Employee benefit obligations**

	Opening Balance	Additions	Total	2016
Long Service Awards	197 365	148 827	346 192	197 365
	<b>197 365</b>	<b>148 827</b>	<b>346 192</b>	<b>197 365</b>

Long service awards calculation are based on the Bargaining Councils Collective Agreement and only become applicable on completion of a predetermined cycle. In other words a ten year long service awards, only materialised once a person completed ten years of services.

**15. Payables from exchange transactions**

Bonus and leave accruals	3 177 971	1 900 278
Debtors with credit balances	662 089	749 267
DWAF Funds water	682 997	367 878
Payment received in advanced - Unallocated deposits	475 809	475 809
Retention creditors		
Suspense creditors	405 985	413 285
Trade payables	12 907 977	9 014 421
3rd Party payments	680 334	535 703
	<b>18 993 162</b>	<b>13 456 642</b>

Payables are being recognised nett of any discounts. The carrying value of trade and other payables approximates its fair value. All payables are unsecured. Debtors with credit balances represents payments received in advance.

**16. Current portion of borrowings**

DBSA loan - Short term portion	-	-
Nashua leases - Short term portion	846 634	1 532 460
	<b>846 634</b>	<b>1 532 460</b>

**17. Consumer deposits**

Water	89 931	78 432
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**18. Revenue**

Government grants & subsidies	33 947 249	38 724 031
Interest received - Consumer accounts	-	-
Interest received - investment	270 807	241 230
Licences and permits	257 953	314 560
Other income	239 800	273 825
Property rates	5 232 833	3 876 125
Recoveries	-	880 866
Rental of facilities and equipment	1 268 594	599 396
Sale of goods	674 414	-
Service charges	9 023 100	9 089 139
	<b>50 914 750</b>	<b>53 999 173</b>

**The amount included in revenue arising from exchanges of goods or services****are as follows:**

Interest received - Consumer accounts	-	-
Interest received - investment	270 807	241 230
Licences and permits	257 953	314 560
Other income	239 800	273 825
Recoveries	-	880 866
Rental of facilities and equipment	1 268 594	599 396
Sale of goods	674 414	-
Service charges	9 023 100	9 089 139
	<b>11 734 668</b>	<b>11 399 017</b>

**The amount included in revenue arising from non-exchange transaction****are as follows:****Taxation revenue**

Property rates	5 232 833	3 876 125
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**Transfer revenue**

Government grants & subsidies	33 947 249	38 724 031
	<b>39 180 082</b>	<b>42 600 156</b>

**!Kheis Local Municipality**

Annual Financial Statements for the year ending 30 June 2017

**Notes to the Annual Financial Statements****19. Property rates****Rates received**

Residential	<b>5 232 833</b>	<b>3 876 125</b>
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**Valuations**

Residential	94 160 000	94 160 000
Commercial	31 240 000	31 240 000
State	41 707 000	41 707 000
Municipal	287 434 000	287 434 000
Small holdings and farms	1 677 710 000	1 677 710 000
Public Worship	9 330 000	9 330 000
Other - Vacant land	3 162 000	3 162 000
	<b>2 144 743 000</b>	<b>2 144 743 000</b>

Property rates are levied on the value of land and improvements. Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014

Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an annual basis with the final date for payment being 30 June 2017

The new general valuation will be implemented on 01 July 2018

An general rate is applied as follows to property valuations to determine property rates:

Residential Properties: 0.0093c/R (2016: 0.0088c/R)

Business Properties: 0.0116c/R (2016: 0.0109c/R)

Agricultural Properties: 0.0019c/R (2016: 0.0018c/R)

State Properties: 0.0023c/R (2016: 0.021c/R)

The first R 15 000 (2016: R 15 000) of the valuation of all residential properties are exempted from the calculation of rates.

**20. Service charges**

Refuse removal	2 905 341	2 724 329
Sale of water	3 773 969	4 303 404
Sewerage and sanitation charges	2 343 790	2 061 406
	<b>9 023 100</b>	<b>9 089 139</b>

The amount disclosed above for revenue from service charges are in respect of services rendered which are billed to the customers on a monthly basis according to approved tariffs

**21. Government grants and subsidies****Operating grants and subsidies**

Equitable Share	20 223 000	19 697 000
Equitable Share - Income for gone	-3 891 869	-2 644 350
Finance Mangement Grant	2 010 000	2 805 000
Library Grant	738 140	656 119
SPLUMA	5 526	-
ZF Mgcawu District Municipality	-	-
	<b>19 084 797</b>	<b>20 513 768</b>

**Capital grants**

Water Income - DWA	-	4 420 000
Lotto sportgronde	3 660 452	305 263
Expanded Public Works Programme (EPWP)	1 000 000	1 000 000
Municipal Infrastructure Grant (MIG)	10 202 000	12 485 000
Coghsta	-	-
	<b>14 862 452</b>	<b>18 210 263</b>
	<b>33 947 249</b>	<b>38 724 031</b>

**Conditional and Unconditional**

Included in above are the following grants and subsidies received:

Conditional grants received	19 084 797	20 513 768
Unconditional grants received	14 862 452	18 210 263
	<b>33 947 249</b>	<b>38 724 031</b>

**!Kheis Local Municipality**  
Annual Financial Statements for the year ending 30 June 2017  
**Notes to the Annual Financial Statements**

**Equitable Share**

In terms of the Division of Revenue Act, the annual equitable share allocated to the municipality is an unconditional grant. A portion of this grant is used to subsidise the provision of basic services to indigent community members in line with national policy. In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R337,05 - (2016: R 317.97), which is funded from the grant.

**MIG Grant**

Balance unspent at beginning of year	-	-
Current-year receipts	10 202 000	12 485 000
Conditions met - transferred to revenue	-10 202 000	-12 485 000
	<u>-</u>	<u>-</u>

The grant is used to supplement municipal capital budgets to eradicate backlogs in municipal infrastructure utilised in providing basic services for the benefit of poor households. The grant was used to construct roads infrastructure as part of the upgrading of informal settlement areas. The grant was also allocated for the readication of the bucket system by building UDS toilets for the community of !Kheis.

**Department of Water Affairs**

Balance unspent at beginning of year	-	-
Current-year receipts	-	4 420 000
Conditions met - transferred to revenue	-	-4 420 000
	<u>-</u>	<u>-</u>

The purpose of the grant is to fund internal infrastructure for water services at a basic level of service.

**Expanded Public Works Programme (EPWP)**

Balance unspent at beginning of year	-	-
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	-1 000 000	-1 000 000
	<u>-</u>	<u>-</u>

The grant is to utilised for salary expenses in regards to the expanded public works programme. The grant is in regards to the upgrading of the municipal offices. Grants received for the upgrading of the municipal offices and upgrading of internal streets.

**Upgrading Boegoeberg Sportgronde**

Balance unspent at beginning of year	-	131 724
Conditions met - transferred to revenue	-	-131 724
	<u>-</u>	<u>-</u>

The grant was utilised for the upgrading of the Boegoeberg Sportgrounds

**Lotto Grant**

Balance unspent at beginning of year	60 452	
Current-year receipts	-	365 715
Conditions met - transferred to revenue	-60 452	-305 263
	<u>-</u>	<u>60 452</u>

Conditions still to be met - remain liabilities (see note 13).

**Finance Management Grant**

Current-year receipts	2 010 000	2 805 000
Conditions met - transferred to revenue	-2 010 000	-2 805 000
	<u>-</u>	<u>-</u>

The purpose of the grant is to promote and support reforms to financial management and the implementation of the MFMA.

**SPLUMA**

Balance unspent at beginning of year	-	-
Current-year receipts	5 526	-
Conditions met - transferred to revenue	-5 526	-
	-	-

The purpose of the grant is to provide a framework for spatial planning and land use management for municipalities.

**Library Grant**

Balance unspent at beginning of year	190 142	-
Current-year receipts	1 092 000	846 261
Conditions met - transferred to revenue	-738 140	-656 119
	<b>544 002</b>	<b>190 142</b>

Conditions still to be met - remain liabilities (see note 13).

The grant is to utilised for the programme cost of the library and other costs as per the library proposal.

**Changes in level of government grants**

Based on the allocations set out in the Division of Revenue Act, (Act 5 of 2013), no significant changes in the level of government grant funding are expected over the forthcoming 2 financial years.

**22. Other revenue**

Other income	239 800	273 825
	<b>239 800</b>	<b>273 825</b>

**Other income**

Building Plan fees	2 606	4 479
Cemetaries	-	-
Clearance Certificates	10 386	11 929
Faxes	223	
Graves fees	1 746	2 005
Hawkers Licenses	563	1 025
Miscellaneous Income	200 416	250 980
Photocopies	18 523	307
Refuse removal	-	223
Tender documents	3 479	365
Transport	-	-
Valuation Certificates	1 858	2 513
	<b>239 800</b>	<b>273 825</b>

**!Kheis Local Municipality**

Annual Financial Statements for the year ending 30 June 2017

**Notes to the Annual Financial Statements****23. General expenses**

Administrative Costs	1 586 067	12 320
Advertising	66 674	145 463
Auditors remuneration	151 238	599 617
Bank charges	72 973	52 370
Chemicals	470 072	254 935
Cleaning	92 479	114 842
Computer expenses	1 492 153	220 884
Consulting and professional fees	1 703 061	1 600 721
Electricity	2 315 732	1 870 327
Entertainment	2 222	15 199
EPWP Incentive	-	-
Fuel and oil	420 220	358 735
Insurance	148 223	46 601
Daily Allowances	25 435	15 298
Other expenses	200 794	119 356
Postage and courier	2 043	2 175
Printing and stationery	119 941	164 755
Protective clothing	2 049	25 572
Royalties and license fees	28 438	34 154
Salary and wages	489 807	941 248
Security	8 684	6 635
Subsistence Allowances	382 185	183 061
Subscriptions and membership fees	305 000	523 000
Telephone and fax	238 708	164 548
Training	46 097	9 990
Travel - local	201 871	172 622
	<b>10 572 166</b>	<b>7 654 428</b>

**24. Employee related costs**

Basic	17 819 442	11 558 836
Bonus	1 237 951	1 748 765
Housing benefits and allowances	368 100	154 621
Leave pay provision charge	1 750 809	485 243
Medical aid-company contributions	145 023	160 022
Overtime payments	16 140	9 305
Pensionfund Contributions	2 172 680	1 793 980
Skills Development Levies	200 559	141 602
Training Levies	30 187	9 422
Travel, motor car, accomodation, subsistence and other allowances	1 747 012	1 391 032
UIF	143 613	109 227
	<b>25 631 518</b>	<b>17 562 054</b>

**Remuneration of Municipal Manager**

Annual Remuneration	946 831	588 523
Car Allowance	338 092	190 552
Cellphone Allowance	11 326	6 411
Contributions to UIF, Medical and Pension Funds	414 970	84 744
	<b>1 711 219</b>	<b>870 229</b>

**!Kheis Local Municipality**

Annual Financial Statements for the year ending 30 June 2017

**Notes to the Annual Financial Statements****Remuneration of Chief Finance Officer**

Annual Remuneration	520 913	469 846
Car Allowance	168 295	152 126
Cellphone Allowance	6 411	6 411
Contributions to UIF, Medical and Pension Funds	76 967	100 533
	<b>772 586</b>	<b>728 915</b>

**Remuneration of Technical Director**

Annual Remuneration	520 913	469 846
Car Allowance	168 295	152 126
Cellphone Allowance	6 411	6 411
Contributions to UIF, Medical and Pension Funds	72 384	86 047
	<b>768 004</b>	<b>714 429</b>

**Corporate and Human Resources (Corporate Services)**

Annual Remuneration	499 873	469 846
Car Allowance	159 656	152 126
Cellphone Allowance	5 911	6 411
Contributions to UIF, Medical and Pension Funds	13 851	67 995
	<b>679 290</b>	<b>696 377</b>

**Remuneration of Community Service Director**

Annual Remuneration	520 913	469 846
Car Allowance	168 295	152 126
Cellphone Allowance	6 411	6 411
Contributions to UIF, Medical and Pension Funds	45 153	86 046
	<b>740 772</b>	<b>714 428</b>

**25. Remuneration of councillors**

Mayor	537 409	762 035
Councillors	1 164 238	975 934
Travelling Allowance	506 721	467 632
Cellphone and other allowance	165 133	141 821
	<b>2 373 500</b>	<b>2 347 422</b>

**In-kind benefits**

The Mayor is full-time. He is provided with an office and secretarial support at the cost of the Council.

**26. Debt impairment**

Debt impairment	4 629 721	5 534 854
Correction of bad debt to the amount of R 6 540 626 has been done during the year under review.		

**27. Interest earned - External invest****Interest received from receivables**

Receivables	-	-
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**Interest revenue**

Bank	-270 807	-241 230
	<b>-270 807</b>	<b>-241 230</b>

**!Kheis Local Municipality**  
Annual Financial Statements for the year ending 30 June 2017  
**Notes to the Annual Financial Statements**

**28. Depreciation and amortisation**

Property, plant and equipment	<b>8 592 447</b>	<b>7 633 554</b>
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**29. Finance costs**

Non-current borrowings	<b>54 490</b>	<b>966 994</b>
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**30. Auditors' remuneration**

Fees	<b>151 238</b>	<b>599 617</b>
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**31. Grants and subsidies paid**

**Other subsidies**

MSIG Expenditure	-	2 294 877
MIG Expenditure - UDS Toilets	-	-
	<b>-</b>	<b>2 294 877</b>

**32. Bulk purchases**

Water	<b>901 171</b>	<b>888 575</b>
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**33. Cash generated from operations**

(Deficit) surplus	-2 783 741	3 407 237
<b>Adjustments for:</b>		
Depreciation and amortisation	8 592 447	7 633 554
Loss on sale of non-current assets and disposal groups	-2 038 307	2 419
Finance costs - Finance leases	-54 490	-966 994
Interest income		-
Interest earned - Investment	270 807	241 230
Debt impairment	4 629 721	5 534 854
Movements in operating lease assets and accruals		-
Movements in provisions	-	248 358
Other non-cash items	-153 024	-666 332
<b>Changes in working capital:</b>		
Inventories	-222 095	-91 656
Other receivables from non-exchange transactions	-796 383	-386 765
Consumer debtors	-1 846 522	1 290 925
Investments	593 147	-4 818
Payables from exchange transactions	5 536 520	4 076 926
VAT Receivable	117 267	2 867 497
VAT Payable	416 096	-891 142
Unspent conditional grants and receipts	293 409	-2 138 358
Consumer deposits	-11 500	-585
Current portion of borrowings	-685 825	-
Provisions	-4 364 337	-8 625 100
	<b>7 493 189</b>	<b>11 531 250</b>

**34. Commitments**

**Authorised capital expenditure**

**Already contracted for but not provided for**

Commitment as at 30 June 2016	<b>5 805 911</b>	<b>18 159 521</b>
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This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

### 35. Contingencies

The municipality is currently involved in a court case relating to an accident on the N10 National road. The matter deals with responsibility of maintaining the fences. The estimated costs amounted to R1 600 000.

### 36. Related parties

All Related Party Transactions are conducted at arm's length, unless stated otherwise.

#### 36.1 Interest of Related Parties

Councillors and/or management of the municipality have relationships with businesses as indicated below:

Name of Related Person	Designation	Relationship	Related Party
Cllr AL Diergaardt	Mayor	Member of municipal council	None
Cllr S Esau	Councillor	Member of municipal council	None
Cllr J Silo	Councillor	Member of municipal council	None
Cllr A Tobias	Councillor	Member of municipal council	None
Cllr K Esau	Councillor	Member of municipal council	None
Cllr E Cloete	Councillor	Member of municipal council	None
Cllr G Beukes	Councillor	Member of municipal council	None
J Willemsse	Acting Municipal Manager	Member of key management	Member of Black Sparrow Trading
W. Weilbach	Acting CFO	Member of key management	None
D Dolopi	Technical Director	Member of key management	Member of Kizuka Holdings Member of Press A Phanda Solutions
G Cloete	Employee of the municipality	Close family member of Council. Husband of Councillor E Cloete.	None
CS van Eck	Community Service Director	Member of key management	None

#### Related Person

Employee cost	2017	2016
G Cloete	267 986.40	125 925.17
	<b>267 986.40</b>	<b>125 925.17</b>

#### 36.2 Service rendered to Related Parties.

The municipality did not render any service other than the normal municipal billings (service charges, rates etc) on the approved tariff structure of the municipality to councillors and top management. No Bad Debts were written off or recognised in respect of amounts owed by Related Parties.



**!Kheis Local Municipality**

Annual Financial Statements for the year ending 30 June 2017

**Notes to the Annual Financial Statements****Related party transactions****Related Party**

Cllr A Diergaardt	3 988
Cllr K Esau	4 442
Cllr E Cloete	4 163
Cllr S Esau	4 114
FS Van Eck	-
<b>Total</b>	<b>16 706</b>

**36.3 Loans granted to Related Parties**

In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004. Loans, together with the conditions thereof, granted prior to this date are disclosed in Note to the Annual Financial Statements.

**36.4 Compensation of Related Parties**

Compensation of Key Management Personnel and Councillors is set out in Appendix G, Statement of Remuneration of Management, to the Annual Financial Statements.

**37. Going concern**

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

**38. Events after the reporting date**

No events are known at time of submission of annual financial statement that may have a material impact on !Kheis Municipality's going concern.

**39. Prior period errors**

Property, Plant and Equipment disclosed in prior year financial statements was not impaired which resulted in an overstatement of Property, Plant and Equipment. These errors as indicated in audit report.

The correction of the error(s) results in adjustments as follows:

**Statement of financial position**

Increase/ (Decrease) in Infrastructure Assets	7 451	1 268 186
Decrease in Community Assets	-213 853	-
Increase/ (Decrease) in Land and Buildings Assets	-	1 052 374
Increase in Other Assets	-8 004 772	8 005 304
Decrease in Movable Assets	-19 683	-
Increase in Other Assets Depreciation	-	7 007 749
Increase in Infrastructure Assets Depreciation	69 396	504 664
Increase in Community Assets Depreciation	135 563	28 943
Increase in Other Assets Depreciation	7 452 751	-
Increase/ (Decrease) in Work in Progress	-	-
Decrease in Unauthorised expenditure	457 424	-
Decrease in Debtors Thumelo Youth Farm	-	-
Decrease in Debtors	-	-
Decrease in Debtors SARS SDL	-	-
Decrease in VAT Receivable	-	-
Decrease in Creditors	-	17 867 219
Increase/ (Decrease) in Accumulated Surplus	<b>-115 722</b>	<b>17 867 219</b>

#### 40. Comparative figures

The reporting period is longer than a year, therefore comparative amounts are comparable to the current balances.

#### 41. Unauthorised expenditure

Opening balance	3 661 591	
Unauthorised expenditure	8 347 502	-
Unauthorised expenditure (2014/15)	-	3 661 591
Condoned (Prior Period Correction)	-	-
Condoned	-	-
	<b>12 009 093</b>	<b>3 661 591</b>

The unauthorised expenditure relates to Vehicle registration fees votes budget which were overspent.

#### 42. Fruitless and wasteful expenditure

Opening balance	344 365	344 365
Fruitless and wasteful expenditure - 2016/2017 (Interest on creditors)	24 014	34 377
Condoned		-34 377
	<b>368 379</b>	<b>344 365</b>

The amount of fruitless and wasteful expenditure for 2014/2015, 2015/2016 and 2016/2017 consists of interest and understatement penalties levied by The South African Revenue Services during the recent VAT audits. The Council submitted ADR1 forms to apply for the write off of these penalties and interests. The amount for Auditor General could not be condoned by council, because payments are made by National Treasury.

#### 43. Irregular expenditure

Opening balance	880 866	880 866
Add: Irregular Expenditure - current year	-	
The full extent of irregular expenditure could not be determined		
Less: Amounts condoned or transferred to debtors		-
	<b>880 866</b>	<b>880 866</b>

#### Details of irregular expenditure - prior year

Court case of the appointment of the Municipal Manager	Council made a decision according to the Court ruling stating that Councillors W Maritz, S Esau and AL Diergaardt are collectively and individually responsible for the costs incurred in the process of the appointment of Mr Ronnie van der Westhuizen. Maritz and the two other are responsible for the repayment of legal costs in amount of R 394 596,94 and adverting costs of R 23 000,00.	
		417 597
Salary increases	Increases of salaries and allowances without Council approval	463 270
		<b>880 867</b>

#### 44. Additional disclosure in terms of Municipal Finance Management Act

##### Contributions to organised local government (SALGA)

Opening balance	656 500	656 500
Current year fee	754 935	418 500
Amount paid - current year	-305 000	-418 500
	<b>1 106 435</b>	<b>656 500</b>

##### Audit fees

Opening balance	2 784 932	3 384 549
Current year fee	610 000	-
Amount paid - current year		-599 617
	<b>3 394 932</b>	<b>2 784 932</b>

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**PAYE and UIF**

Current year fee	2 640 052	1 783 361
Amount paid - current year	-2 640 052	-1 783 361
	-	-

**Pension and Medical Aid Deductions**

Current year fee	418 331	2 766 297
Amount paid - current year	-418 331	-2 766 297
	-	-

**VAT**

VAT Receivable	52 050	169 318
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VAT output payables and VAT input receivables are shown in note 9.

All VAT returns have been submitted by the due date throughout the year.

**Councillors' arrear consumer accounts**

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016

<b>30-Jun-17</b>	<b>Outstanding less than 90 days</b>	<b>Outstanding more than 90 days</b>	<b>Total</b>
Cllr E Cloete	9 508	1 371	10 879
Cllr S Esau	19 216	440	19 656
	<b>28 724</b>	<b>1 811</b>	<b>30 535</b>

  

<b>30-Jun-16</b>	<b>Outstanding less than 90 days</b>	<b>Outstanding more than 90 days</b>	<b>Total</b>
Cllr E Cloete			
Cllr K Esau	222	642	864
	<b>222</b>	<b>642</b>	<b>864</b>

In calculation of debt impairment, Councilors were excluded.

<b>30-Jun-17</b>	<b>Highest outstanding amount</b>	<b>Aging (in days)</b>
Councillor S Esau	19 656	
Cllr E Cloete	10 879	
	<b>30535</b>	<b>0</b>

  

<b>30-Jun-16</b>	<b>Highest outstanding amount</b>	<b>Aging (in days)</b>
Councillor K Esau		
Councillor AL Diergaardt		
	<b>-</b>	<b>0</b>

**Supply chain management regulations**

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

**45. Deviation from supply chain management regulations**

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the financial statements.

Goods and Services were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Reference nr	Supplier Name	Authorised	Amount	Reason
5721	IMFO	Yes	R 9 900.00	Sole Supplier
5722	Bytes Universal Systems	Yes	R 18 245.70	Sole Supplier
5740	Electronic Engineering CC	Yes	R 10 607.70	In an emergency
5832	Andrag Agrico	Yes	R 8 130.21	In an emergency
5833	Bytes Universal	Yes	R 22 127.95	Sole Supplier
5844	Oranje Nissan	Yes	R 9 630.08	Sole Supplier
5832	Andrag Agrico	Yes	R 8 130.21	In an emergency
5833	Bytes Universal	Yes	R 22 127.95	Sole Supplier
5844	Oranje Nissan	Yes	R 9 630.08	Sole Supplier
5962	Electronic Engineering CC	Yes	R 26 474.35	In an emergency
5963	Koortzen Elektries	Yes	R 16 826.40	In an emergency
6093	Andrag Agrico	Yes	R 14 698.13	In an emergency
6094	Andrag Agrico	Yes	R 12 035.85	In an emergency
6102	Gemsbok	Yes	R 2 604.57	Sole Supplier
6103	Gemsbok	Yes	R 2 341.76	Sole Supplier
6163	Andrag Agrico	Yes	R 4 526.37	Sole Supplier
6183	Electronic Engineering CC	Yes	R 5 662.38	Repair of pump in Topline
6252	Koortzen Elektries BK	Yes	R 36 090.76	In an emergency
6339	Andrag Agrico	Yes	R 17 512.13	Goods or Services
6376	Electronic Engineering CC	Yes	R 5 757.00	In an emergency
6519	Andrag Agrico	Yes	R 3 058.25	In an emergency
			<b>R 266 117.83</b>	

**!Kheis Local Municipality**

Annual Financial Statements for the year ending 30 June 2017

**Notes to the Annual Financial Statements****46. Going Concern Assessment**

Management considered the following matters relating to the Going Concern:

On 31 May 2014 the Council adopted the 2013/2014 to 2015/16 Budget. This three-year Medium Term Revenue and Expenditure Framework (MTREF) to support the ongoing delivery of municipal services to residents reflected that the Budget was cash-backed over the three-year period.

Strict daily cash management processes are embedded in the municipality's operations to manage and monitor all actual cash inflows and cash outflows in terms of the cash-flow forecast supporting the Budget. The cash management processes is complemented by monthly reporting, highlighting the actual cash position, including the associated risks and remedial actions to be instituted.

As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.

The municipality is not able to settle supplier accounts within 30 days of receipt of the invoice and 30% of trade payables are outstanding for periods exceeding 30 days;

The municipality is based in a remote area in the Northern Cape Province with little economic activity and many community members are classified as indigent consumers of the municipality. As a result the municipality struggles to collect revenue and this result in significant cash flow problems, which cast significant doubt on the municipality's ability to continue as a going concern. The municipality is dependent on national and provincial grants for its continued existence.

Taking the aforementioned into account, management has prepared the Annual financial Statements on the Going - Concern basis.

		2017	2016
<b>47. Financial Instruments</b>			
In accordance with GRAP 104.45 the financial liabilities and assets of the municipality are classified as follows:			
<b><u>Financial Assets</u></b>	<b><u>Classification</u></b>	<b>2017</b>	<b>2016</b>
<b>Investments</b>			
Unlisted Investments	Financial Instruments at fair value	-	-
FNB	Financial Instruments at cost	97 972	91 119
Fixed Deposits - FNB	Financial Instruments at amortised cost	-	600 000
<b>Receivables from Exchange Transactions</b>			
Water	Financial Instruments at amortised cost	10 506 256	9 325 693
Sewerage	Financial Instruments at amortised cost	6 392 879	5 547 240
Refuse	Financial Instruments at amortised cost	9 476 604	8 179 678
Other debtors	Financial Instruments at amortised cost	2 764 592	4 369 224
VAT debtors	Financial Instruments at amortised cost	3 176 273	2 760 177
<b>Receivables from Non-Exchange Transactions</b>			
Various controls	Financial Instruments at amortised cost	880 866	-
Sundry Debtors	Financial Instruments at amortised cost	1 588 706	1 936 200
<b>Cash and Cash Equivalents</b>			
Bank Balances	Financial Instruments at amortised cost	108 990	235 665
Call Deposits	Financial Instruments at amortised cost	200 847	178 464
<b>Total Financial Assets</b>		<b>35 193 983</b>	<b>33 223 460</b>

		2017	2016
<b>SUMMARY OF FINANCIAL ASSETS</b>			
<b>Financial Instruments at amortised cost:</b>			
Investments	FNB	97 972	91 119
Investments	Fixed Deposits - FNB	-	600 000
Receivables from Exchange Transacti	Water	10 506 256	9 325 693
Receivables from Exchange Transacti	Sewerage	6 392 879	5 547 240
Receivables from Exchange Transacti	Refuse	9 476 604	8 179 678
Receivables from Exchange Transacti	Other debtors	2 764 592	4 369 224
Receivables from Exchange Transacti	VAT debtors	3 176 273	2 760 177
Receivables from Non-exchange Tran	Various controls	880 866	-
Receivables from Non-exchange Tran	Sundry Debtors	1 588 706	1 936 200
Cash and Cash Equivalents	Bank Balances	108 990	235 665
Cash and Cash Equivalents	Call Deposits	200 847	178 464
<b>Total Financial Assets</b>		<b>35 193 983</b>	<b>33 223 460</b>
		2017	2016
<b>Financial Liabilities</b>	<b>Classification</b>		
<b>Long-term Liabilities</b>			
DBSA loan	Financial Instruments at amortised cost	-	-
Capitalised Lease Liability	Financial Instruments at amortised cost	846 634	1 532 460
<b>Trade and Other Payables</b>			
Trade Creditors	Financial Instruments at amortised cost	12 907 977	9 014 421
Payments received in advance	Financial Instruments at amortised cost	475 809	475 809
Retentions	Financial Instruments at amortised cost	-	-
Other Creditors	Financial Instruments at amortised cost	5 609 376	3 966 411
<b>Total Financial Liabilities</b>		<b>19 839 796</b>	<b>14 989 102</b>
		2017	2016
<b>SUMMARY OF FINANCIAL LIABILITIES</b>			
<b>Financial instruments at amortised cost:</b>			
Long-term Liabilities	DBSA loan	-	-
Long-term Liabilities	Capitalised Lease Liability	846 634	1 532 460
Trade and Other Payables	Trade Creditors	12 907 977	9 014 421
Trade and Other Payables	Payments received in advance	475 809	475 809
Trade and Other Payables	Retentions	-	-
Trade and Other Payables	Other Creditors	5 609 376	3 966 411
<b>Total Financial Liabilities</b>		<b>19 839 796</b>	<b>14 989 102</b>

#### 48. FINANCIAL RISK MANAGEMENT

The activities of the municipality expose it to a variety of financial risks, including market risk (comprising fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The municipality's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

##### a) Foreign Exchange Currency Risk

The municipality does not engage in foreign currency transactions.

**b) Price Risk**

The municipality is not exposed to price risk.

**c) Interest Rate Risk**

As the municipality has significant interest-bearing liabilities, the entity's income and operating cash flows are substantially dependent on changes in market interest rates.

The municipality analyses its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority of interest bearing liabilities.

**d) Credit Risk**

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the Municipality to incur financial loss.

Credit risk arises mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and

Trade and other receivables are disclosed net after provisions are made for impairment and bad debts. Trade receivables comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other receivables is considered to be moderate due the diversified nature of receivables and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

All rates and services are payable within 30 days from invoice date. Refer to note 17 and 18 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms.

	<b>2017</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>
	<b>%</b>	<b>R</b>	<b>%</b>	<b>R</b>
<b><u>Non-exchange Receivables</u></b>				
Rates	100.00%	8 282 456	100.00%	8 103 310
<hr/>				
<b><u>Exchange Receivables</u></b>				
Water	32.51%	10 506 256	30.90%	9 325 693
Sewerage	19.78%	6 392 879	18.38%	5 547 240
Refuse	29.32%	9 476 604	27.10%	8 179 678
Other debtors	8.55%	2 764 592	14.48%	4 369 224
VAT debtors	9.83%	3 176 273	9.15%	2 760 177
	<b>100.00%</b>	<b>32 316 603</b>	<b>100.00%</b>	<b>30 182 012</b>

No receivables are pledged as security for financial liabilities.

Due to short term nature of trade and other receivables the carrying value disclosed in note 17 and 18 of the financial statements is an approximation of its fair value. Interest on overdue balances are included at prime lending rate plus 1% where applicable.

The provision for bad debts could be allocated between the different classes of receivables as follow:

**!Kheis Local Municipality**

Annual Financial Statements for the year ending 30 June 2017

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	2017 %	2017 R	2016 %	2016 R
<u>Non-exchange Receivables</u>				
Rates	0.35%	77 970	23.75%	6 807 752
<u>Exchange Receivables</u>				
Services	99.65%	22 143 008	76.25%	21 854 939
	<b>100.00%</b>	<b>22 220 978</b>	<b>100.00%</b>	<b>28 662 691</b>

The entity only deposits cash with major banks with high quality credit standing. No cash and cash equivalents were pledged as security for financial liabilities and no restrictions were placed on the use of any cash and cash equivalents for the period under review. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposure are disclosed below.

The banks utilised by the municipality for current and non-current investments are all listed on the JSE (First National Bank). The credit quality of these institutions are evaluated based on their required SENS releases as well as other media reports. Based on all public communications, the financial sustainability is evaluated to be of high quality and the credit risk pertaining to these institutions are considered to be low.

The risk pertaining to unpaid conditional grants and subsidies are considered to be very low. Amounts are receivable from national and provincial government and there are no expectation of counter party default.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

	2017 R	2016 R
Financial assets exposed to credit risk at year end are as follows:		
Receivables from exchange transactions	32 316 603	30 182 012
Cash and Cash Equivalents	309 387	415 655
	<b>32 625 990</b>	<b>30 597 667</b>

**e) Liquidity Risk**

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the treasury maintains flexibility in funding by maintaining availability under credit lines.

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities.



**APPENDIX B**  
**!Kheis Local Municipality**  
**ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2017**

	Cost OpeningBalance Rand	Additions Rand	Disposals Rand	Transfer Rand	Accumulated Depreciation ClosingBalance Rand	OpeningBalance Rand	ent YearDepreciat Rand	mpairme Rand	Additions Rand	Disposal Rand	Transfer Rand	earAdjust Rand	ClosingBalance Rand	CarryingValue Rand
<b>Infrastructure</b>														
Water Network	20 708 122	-	-	-	20 708 122	-8 123 652	-1 001 436	-	-	-	-	-	-9 125 088	11 583 034
Sewerage Mains & Purification Plant	23 668 958.37	-	-	-	23 668 958	-5 520 899	-669 204	-	-	-	-	-	-6 190 104	17 478 855
Electricity Street & Highmasts	4 678 155.10	-	-	-	4 678 155	-2 756 431	-242 436	-	-	-	-	-	-2 998 867	1 679 288
Roads	65 125 579.52	-	-	-	65 125 580	-36 206 651	-2 591 047	-	-	-	-	-	-38 797 698	26 327 881
Refuse Disposal Site	1 743 581.34	-	-	-	1 743 581	-823 387	-128 639	-	-	-	-	-	-952 026	791 555
	<b>115 924 396.21</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>115 924 396</b>	<b>-53 431 021</b>	<b>-4 632 763</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-58 063 783</b>	<b>57 860 613</b>
<b>Community Assets</b>														
Halls	2 886 890	-	-	-	2 886 890	-1 458 076	-212 725	-	-	-	-	-	-1 670 801	1 216 089
Libraries	1 890 383	-	-	-	1 890 383	-1 044 379	-130 425	-	-	-	-	-	-1 174 804	715 579
Civic Buildings	1 568 423	605 927	-	-	2 174 349	-883 674	-116 376	-	-2 233	-	-	-	-1 002 283	1 172 067
Recreational Grounds	5 143 278	-	-	-	5 143 278	-1 580 214	-277 949	-	-	-	-	-	-1 858 164	3 285 114
Cemetries	267 933	-	-	-	267 933	-147 202	-24 340	-	-	-	-	-	-171 543	96 391
Parks and Gardens	12 640	-	-	-	12 640	-8 367	-1 709	-	-	-	-	-	-10 076	2 564
	<b>11 769 546</b>	<b>605 927</b>	<b>-</b>	<b>-</b>	<b>12 375 473</b>	<b>-5 121 913</b>	<b>-763 524</b>	<b>-</b>	<b>-2 233</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-5 887 669</b>	<b>6 487 804</b>
<b>Land and Buildings</b>														
Buildings	4 320 955.95	-	-	-	4 320 956	-2 642 435	-394 946	-	-	-	-	-	-3 037 381	1 283 575
Land	53 223 626.02	-	-	-	53 223 626	-	-	-	-	-	-	-	-	53 223 626
	<b>57 544 581.97</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>57 544 582</b>	<b>-2 642 435</b>	<b>-394 946</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-3 037 381</b>	<b>54 507 201</b>
<b>MAR Database</b>														
Movables - Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Computer Equipment	2 771 428	59 399	-	-	2 830 827	-2 393 205	-162 627	-	-10 410	-	-	-	-2 566 242	264 585
Office Equipment	497 699	10 550	-	-	508 249	-399 515	-40 064	-	-1 138	-	-	-	-440 716	67 532
Motor Vehicles	4 317 504	-	-28 000	-	4 289 504	-2 631 371	-368 076	-	-	27 623	-	-	-2 971 823	1 317 680
Other Assets	8 153 270	1 499	-	-	8 154 769	-7 545 613	-294 756	-	-191	-	-	-	-7 840 560	314 209
	<b>15 739 900</b>	<b>71 448</b>	<b>-28 000</b>	<b>-</b>	<b>15 783 348</b>	<b>-12 969 704</b>	<b>-865 521</b>	<b>-</b>	<b>-11 740</b>	<b>27 623</b>	<b>-</b>	<b>-</b>	<b>-13 819 341</b>	<b>1 964 006</b>
<b>Lease hold Assets</b>														
Lease hold Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Work-in-progress Assets</b>														
Work-in-progress Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Grand Total</b>	<b>200 978 425</b>	<b>677 375</b>	<b>-28 000</b>	<b>-</b>	<b>201 627 799</b>	<b>-74 165 072</b>	<b>-6 656 754</b>	<b>-</b>	<b>-13 972</b>	<b>27 623</b>	<b>-</b>	<b>-</b>	<b>-80 808 175</b>	<b>120 819 624</b>

**APPENDIX B**  
**!Kheis Local Municipality**  
**ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2016**

	Cost				Accumulated Depreciation									
	OpeningBalance Rand	Additions Rand			ClosingBalance Rand	OpeningBalance Rand	rent YearDepreciat Rand							CarryingValue Rand
<b>Infrastructure</b>														
Water Network	21 349 637.00	-	-	-	21 349 637.00	-7 436 384.00	-1 100 514.00	-	-	-	-	-	-8 536 898.00	12 812 739.00
Sewerage Mains & Purification Plant	23 457 807.00	-	-	-	23 457 807.00	-4 750 024.00	-658 081.00	-	-	-	-	-	-5 408 105.00	18 049 702.00
Electricity Street & Highmasts	4 678 155.10	-	-	-	4 678 155.10	-2 539 432.79	-216 997.73	-	-	-	-	-	-2 756 430.52	1 921 724.58
Roads	58 624 858.76	-	-	-	58 624 858.76	-33 535 143.40	-2 184 299.70	-	-	-	-	-	-35 719 443.10	22 905 415.66
Refuse Disposal Site	1 576 277.00	-	-	-	1 576 277.00	-646 439.00	-81 699.00	-	-	-	-	-	-728 138.00	848 139.00
	<b>109 686 734.86</b>	-	-	-	<b>109 686 734.86</b>	<b>-48 907 423.19</b>	<b>-4 241 591.43</b>	-	-	-	-	-	<b>-53 149 014.62</b>	<b>56 537 720.24</b>
<b>Community Assets</b>														
Halls	2 886 889.93	-	-	-	2 886 889.93	-1 284 927.14	-173 148.47	-	-	-	-	-	-1 458 075.61	1 428 814.32
Libraries	1 890 383.32	-	-	-	1 890 383.32	-915 027.94	-129 359.47	-	-	-	-	-	-1 044 387.41	845 995.91
Civic Buildings	1 354 570.00	-	-	-	1 354 570.00	-668 127.00	-79 984.00	-	-	-	-	-	-748 111.00	606 459.00
Recreational Grounds	5 143 277.76	-	-	-	5 143 277.76	-1 331 535.82	-248 678.64	-	-	-	-	-	-1 580 214.46	3 563 063.30
Cemetries	267 933.06	-	-	-	267 933.06	-132 165.16	-15 037.17	-	-	-	-	-	-147 202.33	120 730.73
Parks and Gardens	12 639.51	-	-	-	12 639.51	-6 657.75	-1 709.08	-	-	-	-	-	-8 366.83	4 272.68
	<b>11 555 693.58</b>	-	-	-	<b>11 555 693.58</b>	<b>-4 338 440.81</b>	<b>-647 916.83</b>	-	-	-	-	-	<b>-4 986 357.64</b>	<b>6 569 335.94</b>
<b>Land and Buildings</b>														
Buildings	4 320 955.95	-	-	-	4 320 955.95	-2 270 074.38	-372 360.34	-	-	-	-	-	-2 642 434.72	1 678 521.23
Land	53 223 626.00	-	-	-	53 223 626.00	-	-	-	-	-	-	-	-	53 223 626.00
	<b>57 544 581.95</b>	-	-	-	<b>57 544 581.95</b>	<b>-2 270 074.38</b>	<b>-372 360.34</b>	-	-	-	-	-	<b>-2 642 434.72</b>	<b>54 902 147.23</b>
<b>MAR Database</b>														
Movables - Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Computer Equipment	2 742 850.22	32 921.00	-4 344.04	-	2 771 428.00	-2 139 674.94	-255 079.55	-	-1 029.00	2 578.38	-	-	-2 393 205.11	378 222.89
Office Equipment	494 957.32	2 741.23	-	-	497 698.55	-345 952.05	-53 404.05	-	-158.97	-	-	-	-399 515.07	98 183.48
Motor Vehicles	4 317 503.71	-	-	-	4 317 503.71	-2 140 018.77	-491 352.04	-	-	-	-	-	-2 631 370.81	1 686 132.90
Other Assets	127 424.00	-	-	-	127 424.00	-76 289.00	-15 182.36	-	-	-	-	-	-91 471.36	35 961.64
	<b>7 682 735.25</b>	<b>35 662.23</b>	<b>-4 344.04</b>	-	<b>7 714 054.26</b>	<b>-4 701 934.76</b>	<b>-815 018.00</b>	-	<b>-1 187.97</b>	<b>2 578.38</b>	-	-	<b>-5 515 562.35</b>	<b>2 198 500.91</b>
<b>Lease hold Assets</b>														
Lease hold Assets	2 661 185.00	-	-	-	2 661 185.00	-1 556 676.00	-	-	-	-	-	-	-1 556 676.00	1 104 509.00
	<b>2 661 185.00</b>	-	-	-	<b>2 661 185.00</b>	<b>-1 556 676.00</b>	-	-	-	-	-	-	<b>-1 556 676.00</b>	<b>1 104 509.00</b>
<b>Work-in-progress Assets</b>														
Work-in-progress Assets	18 720 819.00	16 101 929.00	-	-	34 822 748.00	-	-	-	-	-	-	-	-	34 822 748.00
	<b>18 720 819.00</b>	<b>16 101 929.00</b>	-	-	<b>34 822 748.00</b>	-	-	-	-	-	-	-	-	<b>34 822 748.00</b>
<b>Grand Total</b>	<b>207 851 749.64</b>	<b>16 137 591.23</b>	<b>-4 344.04</b>	-	<b>223 984 997.65</b>	<b>-61 774 549.14</b>	<b>-6 076 886.60</b>	-	<b>-1 187.97</b>	<b>2 578.38</b>	-	-	<b>-67 850 045.33</b>	<b>156 134 961.32</b>

# APPENDIX C

## IKHEIS MUNICIPALITY

### SEGMENTAL ANALYSIS OF CAPITAL ASSETS AS AT 30 JUNE 2017

Description	Cost / Revaluation						sd s a	Accumulated Depreciation / Impairment					Carrying Value
	Opening Balance	Additions	Disposals	Transfers	Revaluations	Closing Balance		Opening Balance	Disposals	Additions	Depreciation	Closing Balance	
	R	R	R	R	R	R	R	R	R	R	R	R	R
<b>Executive and Council</b>	<b>69 314 128</b>	<b>605 927</b>	-	-	-	<b>69 920 055</b>		<b>(7 764 348)</b>	-	<b>(2 233)</b>	<b>(1 158 470)</b>	<b>(8 925 050)</b>	<b>60 995 005</b>
<i>Executive &amp; Council</i>	69 314 128	605 927	-	-	-	69 920 055		(7 764 348)	-	(2 233)	(1 158 470)	(8 925 050)	60 995 005
<b>Finance &amp; Admin</b>	<b>15 739 900</b>	<b>71 448</b>	<b>(28 000)</b>	-	-	<b>15 783 348</b>		<b>(12 969 704)</b>	<b>27 623</b>	<b>(11 740)</b>	<b>(865 521)</b>	<b>(13 819 341)</b>	<b>1 964 006</b>
<i>Finance and Administration</i>	15 739 900	71 448	(28 000)	-	-	15 783 348		(12 969 704)	27 623	(11 740)	(865 521)	(13 819 341)	1 964 006
<b>Waste Water</b>													
<b>Management/Sewerage</b>	<b>25 412 540</b>	-	-	-	-	<b>25 412 540</b>		<b>(6 344 287)</b>	-	-	<b>(797 843)</b>	<b>(7 142 130)</b>	<b>18 270 410</b>
<i>Sewerage Mains</i>	25 412 540	-	-	-	-	25 412 540		(6 344 287)	-	-	(797 843)	(7 142 130)	18 270 410
<b>Water Network</b>	<b>20 708 122</b>	-	-	-	-	<b>20 708 122</b>		<b>(8 123 652)</b>	-	-	<b>(1 001 436)</b>	<b>(9 125 088)</b>	<b>11 583 034</b>
<i>Water Network</i>	20 708 122	-	-	-	-	20 708 122		(8 123 652)	-	-	(1 001 436)	(9 125 088)	11 583 034
<b>Electricity Network</b>	<b>4 678 155</b>	-	-	-	-	<b>4 678 155</b>		<b>(2 756 431)</b>	-	-	<b>(242 436)</b>	<b>(2 998 867)</b>	<b>1 679 288</b>
<i>Electricity Network</i>	4 678 155	-	-	-	-	4 678 155		(2 756 431)	-	-	(242 436)	(2 998 867)	1 679 288
<b>Roads transport</b>	<b>65 125 580</b>	-	-	-	-	<b>65 125 580</b>		<b>(36 206 651)</b>	-	-	<b>(2 591 047)</b>	<b>(38 797 698)</b>	<b>26 327 881</b>
<i>Roads</i>	65 125 580	-	-	-	-	65 125 580		(36 206 651)	-	-	(2 591 047)	(38 797 698)	26 327 881
<b>Total</b>	<b>200 978 425</b>	<b>677 375</b>	<b>(28 000)</b>	-	-	<b>201 627 799</b>		<b>(74 165 072)</b>	<b>27 623</b>	<b>(13 972)</b>	<b>(6 656 754)</b>	<b>(80 808 175)</b>	<b>120 819 624</b>

## APPENDIX D

### !KHEIS MUNICIPALITY

#### SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017

2016 Actual Income	2016 Actual Expenditure	2016 Surplus/ (Deficit)	Description	2017 Actual Income	2017 Actual Expenditure	2017 Surplus/ (Deficit)
R	R	R		R	R	R
<b>56 120 003</b>	<b>48 694 763</b>	<b>7 425 240</b>	<b>Municipal Owned</b>	<b>55 958 539</b>	<b>56 703 973</b>	<b>(745 433)</b>
4 422 527	9 099 474	(4 676 947)	<i>Executive and Council</i>	5 812 334	10 698 932	(4 886 598)
36 457 488	17 289 018	19 168 470	<i>Finance &amp; Admin</i>	38 026 199	21 122 372	16 903 826
-	3 876 892	(3 876 892)	<i>Public Works</i>	1 441 520	9 807 286	(8 365 766)
5 042 004	7 415 123	(2 373 119)	<i>Waste Water Management</i>	5 249 131	3 119 074	2 130 057
8 723 404	9 848 595	(1 125 191)	<i>Water/Electricity</i>	3 773 969	10 558 480	(6 784 511)
1 474 580	1 165 661	308 919	<i>Road Transport</i>	1 655 387	1 397 829	257 558
-	-	-		-	-	-
<b>56 120 003</b>	<b>48 694 763</b>	<b>7 425 240</b>	Sub-Total	<b>55 958 539</b>	<b>56 703 973</b>	<b>(745 433)</b>
			Revenue Foregone			
<b>56 120 003</b>	<b>48 694 763</b>	<b>7 425 240</b>	Total	<b>55 958 539</b>	<b>56 703 973</b>	<b>(745 433)</b>

**APPENDIX E (1)**  
**!KHEIS MUNICIPALITY**  
**ACTUAL versus BUDGET (REVENUE AND EXPENDITURE)**

	Actual 2017 R	Budget 2017 R	Explanation of significant variances greater than 10% versus budget
<b>REVENUE</b>			
Sale of goods	674 414		
Service Charges	9 023 100	9 312 639	
Rental of Facilities and equipment	1 268 594	595 431	
Licenses and permits	257 953	-	
Debt impairment gain	-	-	
Other income	239 800	3 224 096	
Interest Earned - External Investments	270 807	245 045	
Property rates	5 232 833	4 109 441	
Government grants & subsidies	33 947 249	41 094 880	
<b>Total Revenue</b>	<b>50 914 750</b>	<b>58 581 533</b>	
<b>EXPENDITURE</b>			
Employee Related Costs	25 631 518	24 848 110	
Remuneration of Councillors	2 373 500	2 533 037	
Depreciation and Amortisation	8 592 447	8 112 079	
Debt Impairment	4 629 721	5 534 854	
Repairs and Maintenance	943 479	1 216 319	
Finance Costs	54 490	414 000	
Free basic services		-	
Bulk Purchases	901 171	1 198 475	
Grants and Subsidies Paid	1 441 094	3 295 186	
General Expenses	9 131 072	14 778 161	
Loss on Disposal of Property, Plant and Equipment			
<b>Total Expenditure</b>	<b>53 698 491</b>	<b>61 930 220</b>	
<b>SURPLUS / (DEFICIT) FOR THE YEAR</b>	<b>(2 783 740)</b>	<b>(3 348 687)</b>	
<b>OTHER REVENUE / EXPENDITURE INCURRED</b>			
Gain on Disposal of Property, Plant and Equipment	2 038 307		
<b>SURPLUS / (DEFICIT) FOR THE YEAR</b>	<b>(745 433)</b>	<b>(3 348 687)</b>	

## APPENDIX E (2)

### IKHEIS MUNICIPALITY

#### BUDGET ANALYSIS OF CAPITAL EXPENDITURE AS AT 30 JUNE 2017

	Budget	Additions	Variances	Variances	Explanation of significant variances greater than 10% versus budget
	2017 R	2017 R	2017 R	2017 %	
<b>MUNICIPALITY</b>					
Executive and Council	-	-	-	0%	
Finance and Admin	-	-	-	0%	
Public Works	-	-	-	0%	
Comm. & Social/Libraries and archives	1 045 000	-	1 045 000	0%	
Housing	-	-	-	0%	
Public Safety/Police	-	-	-	0%	
Sport and Recreation	-	-	-	0%	
Refuse removal	-	-	-	0%	
Waste Water Management/Sewerage	500 000	-	500 000	0%	
Road Transport/Roads	500 000	5 700 000	6 200 000	0%	
Water/Water Distribution	13 904 880	(5 700 000)	8 204 880	0%	
Electricity/Electricity Distribution	-	-	-	0%	
Other/Air transport	-	-	-	0%	
<b>Total Capital Expenditure</b>	<b>15 949 880</b>	<b>-</b>	<b>15 949 880</b>	<b>-</b>	

GRANT REGISTER  
IKHEIS MUNICIPALITY  
DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

Grants and Subsidies Received 2016/2017

Name of Grant	Name of Organ of State or Municipal Entity	Quarterly Receipts						Quarterly Expenditure					Grants and Subsidies Delayed / Withheld					AGREE WITH FILE	Compliance to Revenue Act (*) See below	PERCENT SPEND
		June/ rol over amount	Sept	Dec	March	June	Total	Sept	Dec	March	June	Total	Sept	Dec	March	June	TOTAL			
Financial Manager	National Treasury	-	2 010 000.00	-	-	-	2 010 000.00	236 690.00	669 491.00	629 502.00	474 317.00	2 010 000.00	1 773 310	669 491	-629 502	-474 317	0	N/A	Yes	100
Library Grant	ports, Acts & Cultu	190 141.48	427 000.00	238 000.00	427 000.00	-	1 282 141.48	169 204.78	181 189.99	139 139.57	248 605.17	738 139.51	257 795	419 190	287 860	-248 605	544 002	N/A	Yes	58
Municipal Infrastru	OGHSTA - Nation	603.30	4 601 000.00	5 601 000.00	-	-	10 202 603.30	375 049.75	3 543 364.54	3 200 446.07	3 077 545.68	10 196 406.04	4 225 950	9 144 365	-3 200 446	-3 077 546	6 197	N/A	Yes	100
EPWP Incentive GDP	WRT - Provincie	-	250 000.00	-	750 000.00	-	1 000 000.00	23 995.00	13 932.00	306 130.00	480 503.00	824 560.00	226 005	13 932	443 870	-480 503	175 440	N/A	Yes	82
EEDSM		-	-	-	-	-	-	-	-	-	-	-	0	0	0	0	0	N/A	Yes	#DIV/0!
<b>Total Grants and Subsidies Received</b>		<b>190 744.78</b>	<b>7 288 000.00</b>	<b>5 839 000.00</b>	<b>1 177 000.00</b>	<b>-</b>	<b>14 494 744.78</b>	<b>804 939.53</b>	<b>4 407 977.53</b>	<b>4 275 217.64</b>	<b>4 280 970.85</b>	<b>13 769 105.55</b>	<b>6 483 060.47</b>	<b>1 431 022.47</b>	<b>-3 098 217.64</b>	<b>725 639.23</b>	<b>725 639.23</b>			
(*) Did your municipality comply with the grant conditions in terms of "Grant Framework" in the latest Division of Revenue Act?																				

**APPENDIX G(1)**  
**IKheis Municipality**

**BUDGETED FINANCIAL PERFORMANCE (REVENUE AND EXPENDITURE BY STANDARD CLASSIFICATION) FOR THE YEAR ENDED JUNE 2017**

Description	2016/17											2015/16			
	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Shifting of Funds	Virement	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported Unauthorised Expenditure	Expenditure authorised i.t.o. Sect 32	Balance to be Recovered	Restated Audited Outcome
	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R
<b>REVENUE - STANDARD</b>															
<b>Governance and Administration:</b>															
Executive and Council	-	-	-	-	-	-	5 812 334	-	5 812 334	-	-	-	-	-	-
Budget and Treasury Office	38 325 586	(13 548 000)	24 777 586	-	-	24 777 586	38 026 199	-	13 248 613	153	99	-	-	-	-
Corporate Services	1 092 636	-	1 092 636	-	-	1 092 636	-	-	(1 092 636)	-	-	-	-	-	-
<b>Community and Public Safety:</b>															
Community and Social Services	4 217 000	(2 104 000)	2 113 000	-	-	2 113 000	1441520.14	-	(457 613)	78	39	-	-	-	-
Sport and Recreation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Safety	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Health	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Economic and Environmental Services:</b>															
Planning and Development	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Road Transport	1 673 199	6 200 000	7 873 199	-	-	7 873 199	1 655 387	-	(6 217 812)	21	99	-	-	-	-
Environmental Protection	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Trading Services:</b>															
Electricity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water	9 270 705	8 205 000	17 475 705	-	-	17 475 705	3 773 969	-	(13 701 737)	22	41	-	-	-	-
Waste Water Management	2 019 532	500 000	2 519 532	-	-	2 519 532	5 249 131	-	2 729 599	208	260	-	-	-	-
Waste Management	2 730 061	-	2 730 061	-	-	2 730 061	-	-	(2 730 061)	-	-	-	-	-	-
<b>Other:</b>															
Licence	-	-	-	-	-	-	-	-	-	0	-	-	-	-	-
Intergovernmental & Special Projects	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Revenue - Standard</b>	<b>59 328 720</b>	<b>(747 000)</b>	<b>58 581 720</b>	<b>-</b>	<b>-</b>	<b>58 581 720</b>	<b>55 958 539</b>	<b>-</b>	<b>(2 409 314)</b>	<b>96</b>	<b>94</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>EXPENDITURE - STANDARD</b>															
<b>Governance and Administration:</b>															
Executive and Council	10 066 000	-	10 066 000	-	-	10 066 000	10 698 932	-	632 932	106	106	-	-	-	-
Budget and Treasury Office	21 280 000	(1 858 000)	19 422 000	-	-	19 422 000	21 122 372	-	1 700 372	109	99	-	-	-	-
Corporate Services	5 985 000	-	5 985 000	-	-	5 985 000	-	-	(5 985 000)	-	-	-	-	-	-
<b>Community and Public Safety:</b>															
Community and Social Services	10 087 000	-	10 087 000	-	-	10 087 000	9 807 286	-	(279 714)	97	97	-	-	-	-
Sport and Recreation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Safety	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Health	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Economic and Environmental Services:</b>															
Planning and Development	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Road Transport	2 931 000	-	2 931 000	-	-	2 931 000	1 397 829	-	(1 533 171)	48	48	-	-	-	-
Environmental Protection	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Trading Services:</b>															
Electricity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water	9 036 000	-	9 036 000	-	-	9 036 000	10 558 480	-	1 522 480	117	117	-	-	-	-
Waste Water Management	4 403 219	-	4 403 219	-	-	4 403 219	3 119 074	-	(1 284 145)	71	71	-	-	-	-
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Other:</b>															
License	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intergovernmental & Special Projects	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Expenditure - Standard</b>	<b>63 788 219</b>	<b>(1 858 000)</b>	<b>61 930 219</b>	<b>-</b>	<b>-</b>	<b>61 930 219</b>	<b>56 703 973</b>	<b>-</b>	<b>(5 226 246)</b>	<b>92</b>	<b>89</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Surplus/(Deficit) for the year</b>	<b>(4 459 499)</b>	<b>1 111 000</b>	<b>(3 348 499)</b>	<b>-</b>	<b>-</b>	<b>(3 348 499)</b>	<b>(745 433)</b>	<b>-</b>	<b>2 816 932</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>



**APPENDIX G(2)**  
**!Kheis Municipality**

**RECONCILIATION OF BUDGETED FINANCIAL PERFORMANCE BY MUNICIPAL VOTE FOR THE YEAR ENDED 30 JUNE 2017**

Description	2016/17											2015/16			
	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Shifting of Funds	Virement	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported Unauthorised Expenditure	Expenditure authorised to be recovered	Balance to be recovered	Restated Audited Outcome
	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R
<b>REVENUE BY VOTE</b>															
Vote 1 - Office of the Municipality	-	-	-	-	-	-	5 812 334	5 812 334	5 812 334	0.00	0.00				-
Vote 2 - Corporate Services	921 636	-	921 636	-	-	921 636	750 373	-	(171 263)	81.42	81.42				-
Vote 3 - Financial Services	39 282 586	(13 548 000)	25 734 586	-	-	25 734 586	37 275 826	11 541 240	11 541 240	144.85	94.89	-			-
Vote 4 - Technical Services	-	-	-	-	-	-	-	-	-	0.00	0.00				-
Vote 5 - Cleaning Services	1 017 222	-	1 017 222	-	-	1 017 222	1 435 994	418 772	418 772	141.17	141.17				-
Vote 6 - Waste Management	4 749 998	-	4 749 998	-	-	4 749 998	5 249 131	499 133	499 133	110.51	110.51				-
Vote 7 - Council	-	-	-	-	-	-	-	-	-	0.00	0.00				-
Vote 8 - Water Management	9 270 705	-	9 270 705	-	-	9 270 705	3 773 969	-	(5 496 737)	40.71	40.71				-
Vote 9 - Community Services	-	-	-	-	-	-	5 526	5 526	5 526	0.00	0.00				-
Vote 10 - Traffic Services	1 617 655	-	1 617 655	-	-	1 617 655	1 655 387	37 731	37 731	102.33	102.33				-
<b>Total Revenue by Vote</b>	<b>56 859 802</b>	<b>(13 548 000)</b>	<b>43 311 802</b>	<b>-</b>	<b>-</b>	<b>43 311 802</b>	<b>55 958 539</b>	<b>18 314 737</b>	<b>12 646 737</b>	<b>129.20</b>	<b>98.41</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>EXPENDITURE BY VOTE</b>															
Vote 1 - Office of the Municipality	2 014 972	-	2 014 972	-	-	2 014 972	7 905 022	5 890 050	5 890 050	392.31	392.31				-
Vote 2 - Corporate Services	5 058 323	-	5 058 323	-	-	5 058 323	5 373 402	315 080	315 080	106.23	106.23	-	-	-	-
Vote 3 - Financial Services	22 624 987	(844 000)	21 780 987	-	-	21 780 987	15 748 970	-	(6 032 017)	72.31	69.61				-
Vote 4 - Technical Services	1 450 626	-	1 450 626	-	-	1 450 626	1 999 544	548 917	548 917	137.84	137.84				-
Vote 5 - Cleaning Services	6 145 642	-	6 145 642	-	-	6 145 642	5 916 073	-	(229 569)	96.26	96.26	-			-
Vote 6 - Waste Management	4 173 365	-	4 173 365	-	-	4 173 365	3 119 074	-	(1 054 292)	74.74	74.74				-
Vote 7 - Council	8 086 094	-	8 086 094	-	-	8 086 094	2 793 910	-	(5 292 184)	34.55	34.55				-
Vote 8 - Water Management	8 965 025	-	8 965 025	-	-	8 965 025	10 558 480	1 593 454	1 593 454	117.77	117.77				-
Vote 9 - Community Services	2 814 222	-	2 814 222	-	-	2 814 222	1 891 670	-	(922 553)	67.22	67.22				-
Vote 10 - Traffic Services	1 440 356	-	1 440 356	-	-	1 440 356	1 397 829	-	(42 528)	97.05	97.05				-
<b>Total Expenditure by Vote</b>	<b>62 773 613</b>	<b>(844 000)</b>	<b>61 929 613</b>	<b>-</b>	<b>-</b>	<b>61 929 613</b>	<b>56 703 973</b>	<b>8 347 502</b>	<b>(5 225 640)</b>	<b>91.56</b>	<b>90.33</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Surplus/(Deficit) for the year</b>	<b>(5 913 810)</b>	<b>(12 704 000)</b>	<b>(18 617 810)</b>	<b>-</b>	<b>-</b>	<b>(18 617 810)</b>	<b>(745 433)</b>	<b>9 967 235</b>	<b>17 872 377</b>	<b>0.00</b>	<b>0.00</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**APPENDIX G(3)**  
**IKheis Municipality**  
**RECONCILIATION OF BUDGETED FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2015**

Description	2015/16											2014/15			
	Original Total	Budget	Final Adjustments	Shifting of	Virement	Final	Actual	Unauthorised	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported	Expenditure	Balance	Restated
	Budget	Adjustments	Budget	Funds	nt	Budget	Outcome	Expenditure				Expenditure	o. Sect	cover	Outcome
<b>Revenue by Source</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
Property Rates	4 059 441	50 000	4 109 441	-	-	4 109 441	5 232 833	-	1 123 393	127.34	128.91	-	-	-	-
Property Rates - Penalties & Collec	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
Service Charges - Electricity	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
Service Charges - Water	4 563 267	-	4 563 267	-	-	4 563 267	3 773 969	-	(789 299)	82.70	82.70	-	-	-	-
Service Charges - Sanitation	2 019 439	-	2 019 439	-	-	2 019 439	2 343 790	-	324 351	116.06	116.06	-	-	-	-
Service Charges - Refuse	2 729 933	-	2 729 933	-	-	2 729 933	2 905 341	-	175 407	106.43	106.43	-	-	-	-
Service Charges - Other	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
Rental of Facilities and Equipment	517 431	78 000	595 431	-	-	595 431	1 268 594	-	673 163	213.05	245.17	-	-	-	-
Interest Earned - External Investme	69 045	176 000	245 045	-	-	245 045	270 807	-	25 761	110.51	392.22	-	-	-	-
Interest Earned - Outstanding Deb	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
Dividends Received	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
Fines	60 000	48 434	108 434	-	-	108 434	-	-	(108 434)	0.00	0.00	-	-	-	-
Licences and Permits	-	-	-	-	-	-	257 953	-	257 953	0.00	0.00	-	-	-	-
Agency Services	1 613 199	-	1 613 199	-	-	1 613 199	-	-	(1 613 199)	0.00	0.00	-	-	-	-
Transfers Recognised - Operationa	24 325 000	1 500 000	25 825 000	-	-	25 825 000	19 084 797	-	(6 740 203)	73.90	78.46	-	-	-	-
Other Revenue	4 102 463	(3 000 000)	1 102 463	-	-	1 102 463	914 215	-	(188 248)	82.92	22.28	-	-	-	-
Gains on Disposal of PPE	305 000	95 000	400 000	-	-	400 000	-	-	(400 000)	0.00	0.00	-	-	-	-
<b>Total Revenue (excluding Capital)</b>	<b>44 364 219</b>	<b>(1 052 566)</b>	<b>43 311 653</b>	<b>-</b>	<b>-</b>	<b>43 311 653</b>	<b>36 052 299</b>	<b>-</b>	<b>(7 259 354)</b>	<b>83.24</b>	<b>81.26</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Expenditure</b>															
Employee Related Costs	21 502 570	3 345 540	24 848 110	-	-	24 848 110	25 631 518	783 408	783 408	103.15	119.20	-	-	-	-
Remuneration of Councillors	2 533 037	-	2 533 037	-	-	2 533 037	2 373 500	-	(159 537)	93.70	93.70	-	-	-	-
Debt Impairment	5 534 854	-	5 534 854	-	-	5 534 854	4 629 721	-	(905 133)	83.65	83.65	-	-	-	-
Depreciation and Asset Impairmen	11 553 079	(3 441 000)	8 112 079	-	-	8 112 079	8 592 447	480 369	480 369	105.92	74.37	-	-	-	-
Finance Charges	414 000	-	414 000	-	-	414 000	54 490	-	(359 510)	13.16	13.16	-	-	-	-
Bulk Purchases	1 198 475	-	1 198 475	-	-	1 198 475	901 171	-	(297 305)	75.19	75.19	-	-	-	-
Other Materials	2 091 319	(875 000)	1 216 319	-	-	1 216 319	943 479	-	(272 840)	77.57	45.11	-	-	-	-
Contracted Services	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
Transfers and Grants	2 547 186	748 000	3 295 186	-	-	3 295 186	1 441 094	-	(1 854 092)	43.73	56.58	-	-	-	-
Other Expenditure	16 414 021	(1 635 860)	14 778 161	-	-	14 778 161	9 131 072	-	(5 647 089)	61.79	55.63	-	-	-	-
Loss on Disposal of PPE	-	-	-	-	-	-	(2 038 307)	-	(2 038 307)	0.00	0.00	-	-	-	-
<b>Total Expenditure</b>	<b>63 788 540</b>	<b>(1 858 320)</b>	<b>61 930 220</b>	<b>-</b>	<b>-</b>	<b>61 930 220</b>	<b>51 660 184</b>	<b>1 263 776</b>	<b>(10 270 036)</b>	<b>83.42</b>	<b>80.99</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Surplus/(Deficit)</b>	<b>(19 424 321)</b>	<b>805 754</b>	<b>(18 618 567)</b>	<b>-</b>	<b>-</b>	<b>(18 618 567)</b>	<b>(15 607 885)</b>	<b>(1 263 776)</b>	<b>3 010 682</b>	<b>0.00</b>	<b>0.00</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Transfers Recognised - Capital	15 269 880	-	15 269 880	-	-	15 269 880	14 862 452	-	(407 428)	97.33	97.33	-	-	-	-
Contributions Recognised - Capital	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
Contributed Assets	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
<b>Surplus/(Deficit) after Capital</b>	<b>(4 154 441)</b>	<b>805 754</b>	<b>(3 348 687)</b>	<b>-</b>	<b>-</b>	<b>(3 348 687)</b>	<b>(745 433)</b>	<b>(1 263 776)</b>	<b>2 603 254</b>	<b>0.00</b>	<b>0.00</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Surplus / (Deficit) from Discontin	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
Share of Surplus/(Deficit) of Associ	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
<b>Surplus/(Deficit) for the Year</b>	<b>(4 154 441)</b>	<b>805 754</b>	<b>(3 348 687)</b>	<b>-</b>	<b>-</b>	<b>(3 348 687)</b>	<b>(745 433)</b>	<b>(1 263 776)</b>	<b>2 603 254</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

APPENDIX G(4)  
IKheis Municipality

RECONCILIATION OF BUDGETED CAPITAL EXPENDITURE FOR THE YEAR ENDED JUNE 2017

Description	2016/17											2015/16			
	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Shifting of Funds	Virement	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported authorised expenditure	authorised t.o. Sect 3	Balance to be Recovered	Restated Audited Outcome
	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R
<b>CAPITAL EXPENDITURE - VOTE</b>															
<b>Multi-year Expenditure</b>															
Vote 1 - Executive and council	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
Vote 2 - Financial & Administration	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
Vote 3 - Public Work	2 045 000	5 700 000	7 745 000	-	-	7 745 000	4 292 141	-	(3 452 859)	55.42	209.88	-	-	-	-
Vote 4 - Refuse	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
Vote 5 - Water	13 904 880	(5 700 000)	8 204 880	-	-	8 204 880	10 202 603	-	1 997 723	124.35	73.37	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Capital Expenditure - Multi-year</b>	15 949 880	-	15 949 880	-	-	15 949 880	14 494 745	-	(1 455 135)	90.88	90.88	-	-	-	-
<b>Single-year Expenditure</b>															
Vote 1 - Executive and council	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
Vote 2 - Financial & Administration	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
Vote 3 - Public Work	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
Vote 4 - Refuse	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
Vote 5 - Water	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
<b>Total Capital Expenditure - Single-year</b>	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Capital Expenditure - Vote</b>	15 949 880	-	15 949 880	-	-	15 949 880	14 494 745	-	(1 455 135)	90.88	90.88	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>CAPITAL EXPENDITURE - STANDARD</b>															
<b>Governance and Administration:</b>															
Executive and council	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
Budget and treasury office	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Community and Public Safety:</b>															
Community and social services	1 045 000	-	1 045 000	-	-	1 045 000	1 282 141	237 141	237 141	122.69	122.69	-	-	-	-
Sport and recreation	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
Public safety	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
Housing	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Economic and Environmental Services:</b>															
Planning and development	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
Road transport	500 000	5 700 000	6 200 000	-	-	6 200 000	3 010 000	-	(3 190 000)	48.55	602.00	-	-	-	-
Environmental protection	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Trading Services:</b>															
Electricity	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
Water	13 904 880	(5 700 000)	8 204 880	-	-	8 204 880	10 202 603	1 997 723	1 997 723	124.35	73.37	-	-	-	-
Waste water management	500 000	-	500 000	-	-	500 000	-	-	-	-	-	-	-	-	-
Waste management	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Other:</b>															
Other	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Capital Expenditure - Standard</b>	15 949 880	-	15 949 880	-	-	15 949 880	14 494 745	2 234 865	(955 135)	90.88	90.88	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>FUNDED BY:</b>															
National Government	16 905 000	-	16 905 000	-	-	16 905 000	10 202 000	-	(6 703 000)	60.35	60.35	-	-	-	-
Provincial Government	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
District Municipality	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
Other Transfers and Grants	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
<b>Transfers Recognised - Capital</b>	16 905 000	-	16 905 000	-	-	16 905 000	10 202 000	-	(6 703 000)	60.35	60.35	-	-	-	-
Public Contributions & Donations	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
Borrowing	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
Internally Generated Funds	-	-	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Capital Funding</b>	16 905 000	-	16 905 000	-	-	16 905 000	10 202 000	-	(6 703 000)	60.35	60.35	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

**APPENDIX G(5)**  
**Kheis Municipality**  
**RECONCILIATION OF BUDGETED CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017**

Description	2016/2017								2015/2016
	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Audited Outcome
	R	R	R	R	R	R	R	R	R
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>									
<b>Receipts</b>									
Ratepayers and Other	19 665 420.52	(4 442 000)	15 223 421	15 223 421	6 567 474	(8 655 947)	43.14	33.40	-
Government - Operating	24 690 000.00	1 500 000	26 190 000	26 190 000	19 084 797				-
Government - Capital	14 904 880.00	-	14 904 880	14 904 880	14 862 452	(42 428)	99.72	99.72	-
Interest	69 045.45	176 000	245 045	245 045	270 807	25 761	110.51	392.22	-
Dividends	-	-	-	-	-	-	0.00	0.00	-
<b>Payments</b>									
Employee costs		-			(28 005 018)				
Suppliers and Employees	-43 688 434.55	835 000	(42 853 435)	(42 853 435)	(5 232 833)	37 620 602	0.00	0.00	-
Finance Charges	-414 000.00	-	(414 000)	(414 000)	(54 490)	359 510	0.00	0.00	-
Other payments		-		-	-				
Other cash items		-		-	-				
Transfers and Grants	(2 547 186)	748 000	(1 799 186)	(1 799 186)	-	1 799 186	0.00	0.00	-
<b>NET CASH FROM / (USED) OPERATING ACTIVITIES</b>	<b>12 679 725</b>	<b>(1 183 000)</b>	<b>11 496 725</b>	<b>11 496 725</b>	<b>7 493 189</b>	<b>31 106 685</b>	<b>65.18</b>	<b>59.10</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>									
<b>Receipts</b>									
Proceeds on sale of PPE	-	-	-	-	(1 159 376)	(1 159 376)	0.00	0.00	-
Purchase of PPE	-	-	-	-	(8 348 915)	(8 348 915)	0.00	0.00	-
Purchase of Intangible Assets	-	-	-	-	-	-			-
Decrease / (Increase) in Non-current Investments	-	-	-	-	-	-	0.00	0.00	-
<b>Payments</b>									
Capital Assets	-14 905 000.00	-	(14 905 000)	(14 905 000)	-	14 905 000	0.00	0.00	-
<b>NET CASH FROM / (USED) INVESTING ACTIVITIES</b>	<b>(14 905 000)</b>	<b>-</b>	<b>(14 905 000)</b>	<b>(14 905 000)</b>	<b>(9 508 291)</b>	<b>5 396 709</b>	<b>0.00</b>	<b>0.00</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>									
<b>Receipts</b>									
Repayment of borrowings	-	-	-	-	-	-	0.00	0.00	-
Increase/decrease in consumer deposits	-	-	-	-	-	-			
Finance lease payments					1 908 835				
New Loans raised	-	-	-	-	-	-	0.00	0.00	-
<b>Payments</b>									
Loans repaid	-	-	-	-	-	-	0.00	0.00	-
<b>NET CASH FROM / (USED) FINANCING ACTIVITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1 908 835</b>	<b>-</b>	<b>0.00</b>	<b>0.00</b>	<b>-</b>
<b>NET INCREASE / (DECREASE) IN CASH HELD</b>	<b>2 225 275</b>	<b>(1 183 000)</b>	<b>(3 408 275)</b>	<b>(2 225 275)</b>	<b>(106 268)</b>	<b>(3 302 007)</b>	<b>0.00</b>	<b>0.00</b>	<b>-</b>
Cash / Cash Equivalents at the Year begin:	-	-	-	-	415 655	415 655	0.00	0.00	-
Cash / Cash Equivalents at the Year end:	(2 225 275)	(1 183 000)	(3 408 275)	(3 408 275)	309 387	3 717 662	0.00	0.00	-